

JPRS-CAR-93-087  
6 December 1993



**FOREIGN  
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# ***JPRS Report***

# **China**

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# China

JPRS-CAR-93-087

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6 December 1993

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### Clean Government Policy 'Ineffective'

93CM0513A Beijing ZHONGGUO QINGNIAN [CHINESE YOUTH] in Chinese No 9, 1 Sep 93 pp 4-5

[Article by Da Ye (1129 0048): "A Storm of Indignation Over the Question of Honest Government Is Sweeping China"]

[Text] In the summer of 1933, some corrupt officials will feel somewhat discomfited. They will have observed, more carefully than the average person, that since the beginning of summer, highly placed leaders in the CPC have on many important occasions restated the need to "grasp with both hands, and to do so firmly," thereby emphasizing that while it is necessary to accelerate reform, opening up, and economic construction, it is equally necessary to guard against the intrusion of the principles of commodity exchanges into political life; we must take action against "trading power for money" and other decadent activities.

At the East China and Northwest economic work symposia in May and June, CPC General Secretary Jiang Zemin [3068 3419 3046] stated most seriously that counteraction against corruption, restoration of the moral fiber of the party, and the movement for diligence and honesty in government will be regarded as highly important tasks to be pursued with firmness and persistence.

At the symposium in commemoration of the 72d anniversary of the CPC, Jiang Zemin again pointed out that negative and corrupt phenomena disturb reform and opening up, to the intense dismay of the masses. It is a completely mistaken and extremely harmful idea to think that suppression of corruption will have a detrimental effect on reform and opening up.

Even more frightening for corrupt officials is the fact that in June, Wei Jianxing [1414 0256 5887] and Ren Jianxin [0117 1696 2450], both Central Committee members, one in charge of disciplinary inspection and the other in charge of legal affairs, issued the warning that the fight against corruption is facing a grim situation, and they enjoined all their subordinates to prepare for a protracted battle.

People who have inside information have revealed that there are certainly reasons for the serious attention now being given by the central authorities to the fight against corruption.

### Many New Variations of "Trading Power for Money"

It has been learned that the Central Discipline Inspection Commission had reported to the Central Committee on the multifarious forms in which corruption presently appears. Where officials use the powers of office to enrich themselves, patterns and methods continuously change and appear under new guises. These acts are mostly of a fraudulent, disruptive, and corroding nature. Conspicuous manifestations of such and widely prevalent are the illegal acts of graft, acceptance of bribes, favoritism out of self-interest, breaking the law while officially charged with executing the law, blackmailing and extortion, and other malfeasances. Incidents of such decadent behavior as squandering of public money, extravagance and waste are also spreading, and even some party cadres have succumbed to the ways of decadence and moral degeneration,

of bureaucratism, deceptive practices, and of bullying and oppressing the masses, which in the end has aroused great popular indignation.

Facts that have come out of the Supreme People's Procuratorate show that corruption and bribery are the main enemies in the fight against decadence. According to incomplete statistics, in the first four months of this year alone, the procuratorates have accepted 13,729 cases of corruption and bribery, of which over 6,000 cases have been investigated and appropriately disposed of, ending with the arrest of 1,757 persons and the indictment of 2,010 persons. Half of the cases investigated were major cases involving over 10,000 yuan. Somewhat over 15 cases even involved amounts of over several million yuan.

In the last few years, economic criminals have become extremely insolent and arrogant, some not even hesitating to risk execution. These people frequently congregate at trading departments which are of a monopolistic nature. The "trading power for money" problem is becoming more and more notorious in the law enforcement sectors of the industrial-commercial, taxation, tobacco and alcohol monopoly departments. Last year, Fujian Province took on, investigated, and appropriately disposed of 54 of such cases. Since the start of this year, the province took on 24 cases and another 47 cases which involved law enforcement personnel. Of the 44 major cases involving sums of over 10,000 yuan being investigated by Zhejiang Province, half involved leading cadres. These cases originated in land management departments, the maritime customs, and judicial agencies.

Among financial circles, cases of arranging loans for private benefit are frequent and involve sums that are simply astounding. Of the 12 major cases involving more than one million yuan investigated by the procuratorates in the first quarter of this year, one quarter are cases that have occurred in the banking system. Although investigations have been strict these last years, many loopholes have remained open in the banking system, and major cases keep occurring. Among the criminals, the proportion of younger persons is very high, and they often abscond with the money they have embezzled. Bankers asking for private commissions has become a common practice, which is disruptive of the banking order. Some people act with great audacity, disregarding the consequences and taking every chance to engage in corrupt practices and in bribery. In the banking system of Heilongjiang Province alone, 139 new major cases have occurred in the course of last year.

During the last few years, the securities market, the futures market, the real estate market, and the technologies market have emerged as new hot spots of economic activity, and criminal elements have been quick to extend their tentacles into these areas. Misusing the powers of their offices and without authority, they have helped themselves to public money for speculation in shares, in securities, and in real estate. In the first five months of this year, 10-odd cases of this kind have been found out and appropriately dealt with in Shanghai. In one of these cases, the manager of a securities company had misappropriated 3.8 million to speculate in shares. Even worse is the case of a "banker" named Zeng Ruifen [2582 3843 5258] in Shaoyang, Hunan



Province, who has had the audacity to misappropriate 25.8 million to speculate in real estate, embezzling into her own pockets 1.25 million yuan.

To escape punishment, the criminals are getting ever smarter in the tricks they use. They have learned to use "legal" methods to conceal their actions. Some who are in positions of power take as pretext the New Year holidays, ribbon-cutting ceremonies at the inauguration of new enterprises, as well as weddings and funerals to accept monetary gifts, bonds, and ceremonial savings certificates. This mingling of "legal gifts" with the giving and taking of bribes, obscures the boundaries between legal and illegal action, and adds to the difficulties of the judicial organs in handling such cases.

#### **Little Devils on the Rampage Are No Match for the Powers of Zhong Kui**

The reason why the highest levels of the central authorities judge the anti-corruption campaign to have reached a grim state is because it is now showing this striking contrast: On the one side there is this growing corruption with all its graft and bribery, and on the other side, all measures against it are proving ineffectual.

The Supreme People's Procuratorate has revealed that from the latter half of last year on there has been a marked decline in denunciations, and a distinct reduction in cases brought up for investigation. Denunciations received in Jiangsu Province during the period January to April of this year have declined 43 percent, compared with the corresponding period of last year, and cases taken up for investigation have declined 44 percent. In Qinghai Province, economic crimes taken on for investigation during the first quarter of this year have declined 60 percent, compared with the corresponding period of last year. What is most astounding is that in the procuratorates of ten counties in Guizhou Province, surprisingly, not even one case of an economic crime has been prosecuted during the period from January to April of this year!

Authoritative persons analyze that the main reason for the decline of denunciations and of prosecutions is that there is no strict law enforcement, that countermeasures are ineffectual, and that this has a detrimental effect on the eagerness of the masses to come forth with denunciations.

Since last year, some government and judicial departments have interpreted the "grasp with both hands" policy as meaning to "loosen up" a bit, even going so far as to say "let's raise economic construction, go easy with anti-corruption." That gives the general public the wrong idea that from now on these crimes will not be strictly prosecuted, and this in turn dampens eagerness among the masses to do their share in anti-corruption activities.

Some places and departments practice "protectionism" when it comes to investigate and prosecute economic crimes and there is intervention by persons in leading positions in party and government. Some leading cadres openly demand that they must be asked to give their opinion by personnel about to handle any such cases, and that "discretion" must be exercised in the prosecution of economic crimes within their respective territory or

department. Feeling restricted in this way, personnel handling such cases are in an awkward predicament and will merely shrink from investigating these cases anymore.

#### **If Morality Grows One Foot, the Devil Will Grow Ten Feet**

The voice of the masses is getting increasingly louder, calling out against the spread of corruption and the ineffectual campaign against it. When Premier Li Peng in his government work report to the First Session of the Eighth National People's Congress declared the intention to "fight corruption and have diligent and honest government," the more than 2,800 people's delegates responded with a long and ardent applause. The applause by the people's delegates reflected the desire and demand of the people as a whole.

The call of the masses evoked utmost attention among party and government. After the "two congresses" [people's and party's national congresses], the newly elected procurator general of the Supreme People's Procuratorate, Zhang Siqing [1728 1835 0615], immediately published a talk in which he indicated the intention of strictly enforcing the law and to resolutely prosecute economic crimes. He pointed out sharply that there is now no lack of cases, and that a backlog of over 10,000 denunciations has accumulated during the first three months of this year. It is noteworthy, though, that with so large a backlog, the number of cases taken on for prosecution has declined.

This procurator general, who is famous for strict law enforcement, has vowed that all procuratorates will primarily prosecute cases that have originated among leading cadres and in law enforcement departments. These cases will all be followed through to the end, regardless what their backgrounds may be.

From the beginning of summer on, the procuratorates have prosecuted economic crimes with greater energy, and a large number of criminals have indeed been caught.

The procuratorate of Hainan Province has very rapidly brought to light what proved to be the largest corruption case since the founding of the PRC. In collusion with Chen Yijin [7115 6318 6855], manager of a certain company in Hainan, Xue Genhe [5641 2704 0735], a cadre of the Haikou Commercial and Industrial Bank, using the facilities of his office, issued fictitious bank drafts. From January to August of 1992, he transferred in this way without authority 37.09 million yuan to banks outside the province, and out of these remittances he withdrew 25.94 million yuan. When the case was broken, he and his accomplices left the country in a hurry. With the cooperation of the public safety agency in Fangcheng, Guangxi Province, the personnel in charge of the case went to Vietnam three times and finally caught the criminals. On 1 June, public prosecution was initiated in this "record" corruption case, and the criminals got what they deserved.

About the same time, the procuratorate of Guangdong Province arrested and brought to justice Yu Haojie [0151 6275 2638] and his accomplices, who had misappropriated huge amounts of public money. Yu, a manager of a certain company in Xinhui, to get money for gambling, made up four spurious documents and used them to cheat the bank out of 6.2 million yuan. Yu Haojie changed the money he

had gained through his fraud into Hong Kong dollars, went to Macao to gamble, and soon had lost HK\$3 million. With further fraudulent representations, he managed to get a bank loan of over 13 million yuan, which he again used, after an exchange into Hong Kong currency, to gamble, with the result of again losing everything. Yu Haojie has only himself to blame when he departs to the netherworld.

On 29 June, the Central Disciplinary Inspection Commission and the Ministry of Supervision issued a circular notice exposing the bribery cases of Wang Naibin [3769 0035 2430], former deputy mayor of Pingdingshan City in Henan Province, of Xu Zhonghe [1776 0022 0735], mayor of Ruzhou City, and Fan Ganchao [5400 1626 2600], assistant manager at the head office of the Pingdingshan Coal and Industrial Company...

At present, the Central Disciplinary Inspection Commission, the Ministry of Supervision, and the highest judicial organs are targeting on several large and important cases, which they vigorously and relentlessly pursue, striving to achieve even greater victories in the campaign against corruption.

Following the deepening of reform and opening up and the development of the market economy, the mobility of people, property, and materials has increased, and so has the incidence of economic crimes—graft, bribery, etc.—which at times extend beyond local regions and even beyond the borders of the country. In all these cases, results cannot be achieved by merely relying on the forces of one region or one department. It is learned that the Supreme People's Procuratorate has suggested that a "center for the detection, direction, and coordination of important criminal cases" be set up, to strengthen unified direction and coordination in searching out important cases and bringing the criminals to justice. This would indeed be beneficial for quick responses and unified enforcement of the law, as it would also enable bringing the superior effective forces of the entire country into play to put a stop to the spread of corruption.

#### Party Membership Declines in Rural Areas

94CM0027A Harbin FENDOU [STRUGGLE] in Chinese  
No 8, Aug 93 p 20

[Article by Wang Lizhong (3769 0500 5883), Shuangyashan Municipal Committee Organization: "Quick Look at Changing Attitude To Becoming Party Activist"]

[Text] At present, there is stagnation in grassroots party organization member development work. According to studies by relevant sectors, nearly 40 percent of production groups in more than 3,700 Heilongjiang small-scale industrial, business, fiscal and trade enterprises with independent accounting have not established party organizations because they have no party members. In rural Heilongjiang, party members are scarce or nonexistent in a considerable portion of administrated villages. Since 1985, there has been a reduction of a total of more than 13,000 peasant party members, and their proportion has fallen three percentage points compared to 1985. An important reason for the stagnation in party member development work is the reduction of activist troops, and a reason for the reduction of activist troops is activists' changing attitude.

One change in attitude. A more concrete understanding of the party's ruling authority. Almost all activists know that the Communist Party of China is the ruling party on a national scale. However, when they specifically go to look at a department, a unit, or an enterprise, they feel that the party organization lacks ruling authority there. Party organizations are unattractive to them because administrative heads rule there, and "manage matters." Ways to resolve this problem are, one, to enhance activist education on the nature of the party and its task, making them clearly understand the historical mission the party undertakes at the present stage, and two, accelerate reforms of the leadership system, strengthening and improving the party's leadership over economic work and augmenting the leadership authority in the area of economics by grassroots party organizations.

A second change in attitude. More direct observation of the role of party members as models. The role model of party members is an important impetus stimulating activists' desire to join the party. The CPC really has innumerable excellent elements revered by the people. Since reform and opening to the outside world, it also really has many models which the people know well. Their moving deeds undoubtedly play a major inspiring role for activists. However, the majority of activists focus their gaze mainly concentrated on surrounding Communist Party members, directly observing the role models of party members. When they see that some party members are not playing a vanguard role, and some Party members even disobey the law, create disorder of discipline, or are corrupt or degenerate, they feel disheartened about joining the party. Ways to resolve this problem are, one, to energetically cultivate and establish party member examples from their own unit and department, such that in front of the activist troops there always are role models who can be looked up to and contacted and thus play a direct influential and educational role, and two, enhance party member troop establishment, firmly eliminating the black sheep among the troops of party members, cleaning up party organizations, and making activists feel that the party organization truly is composed of excellent elements and that it is an honor to join the party.

A third change in attitude. More practically select individuals of value. There are profound changes in the peoples' concept of value in line with the development of a commodity economy, particularly in the transition from a planned economy to a market economy. The attitudes of activists also are very different from before. More judge value by material benefit. Their excitement is most greatly concentrated on engaging in the commodity economy and getting rich while feelings for political honors are increasingly weak. Some observe that it makes no difference whether one joins the party since there is no connection between doing so and making money. Ways to resolve this problem are, one, to adroitly guide action according to circumstances, using various means to develop activists' inherent energy as much as possible within the commodity economy and allow them to put to good and full use their talents on the economic stage, and two, enhance activist teaching on collectivism, patriotism and the aims of the party, allowing them to establish correct human values and overcome such ideological problems as money worship, individualism, and selfish interests.

A fourth change in attitude. More personally examine and observe the consolidated power of organizational movements. In the transition to a market economy, grassroots organizations must operate according to market economy rules and develop and implement a rich array of effective activities to promote economic development, thereby strengthening the consolidation and attractiveness of party organizations. However, at present many party organizations simply seek movements in form, still continuing to use formerly popular "great drum beats" sort of political education with informal discussions of empty theories satisfying "one class in three sessions." They still consider topics from above on down, as was the case under the planned economic system. These methods are divorced from reality, slanted toward politics imbued with emptiness. When activists personally examine and observe, they feel an organization is more than such simple meaningless "treatment." Thus their enthusiasm to join the party is dampened. Ways of resolving this problem are to be based on the needs of economic construction and the desire of party members and the masses to really change traditional movement styles. For example, energetically promote training in applied technology, general science lectures, scientific and market knowledge to really resolve some "hot spots" and "difficulties" which worry some party members and the masses, especially activists, and tightly contain them within party organizations.

#### Questions, Answers on Civil Service Regulations

93CM0498B Beijing XUEXI YU YANJIU [STUDY AND RESEARCH] in Chinese No 17, 1 Sep 93 pp 10-11

[Article: "Questions and Answers on Civil Service System"]

[Text] *What are the duties and rights of civil servants? What is the correlation between the duties and rights of civil servants and the duties and rights of citizens?*

So-called civil servant duties refers to national legal limitations on what a civil servant must do and not do; i.e., the responsibilities that the state prescribes for civil servants through provisions of the law. The connotations are: First, the duties that the state prescribes for civil servants are for the purpose of ensuring that civil servants correctly discharge their national legally prescribed responsibilities in the performance of state official business. Second, the primary duty of civil servants is that they must behave or not behave in certain ways. Third, these duties are binding on civil servants. Civil servants must discharge them; they may not renounce them.

So-called civil servant rights means national laws permit and ensure that civil servants may enjoy certain benefits or take certain actions. In other words, national laws employ the bestowal of rights on civil servants to affirm that civil servants may or may not act in certain ways, and they require that others correspondingly act or not act in certain ways. The connotations are: First, the state prescribes rights for civil servants are so that they may more effectively exercise their functions and powers in the performance of state official business. Second, the state acknowledges or gives civil servants the legal means and conditions for meeting certain requirements and taking certain actions, meaning that conditions for civil servants to exercise their rights are protected by law. Third, whether

civil servants use these legal means and conditions for realizing certain requirements and actions is generally decided by the civil servants themselves. This is to say that they may exercise or not exercise their rights. However, some powers and authorities are necessary for the performance of civil servants' functions and powers, and some rights are themselves also duties. Such powers and authority may only be used; they may not be renounced.

China's constitution prescribes citizens' rights and duties, and "National Civil Servant Interim Regulations" prescribe the duties and rights of civil servants. The correlation between the two is as follows: 1) The rights and duties that the constitution profits for citizens are the basic rights and duties of China's citizens. As a civil servant in China, one is first of all a citizen; therefore, there is no doubt that civil servants may enjoy the basic rights of citizens. Likewise, they are duty bound to perform the basic duties of citizens. 2) Civil servants exercise administrative functions and powers; they perform official state business. On this point, they differ from other citizens. Therefore, in addition to the basic rights and duties of citizens, civil servants have rights and duties that correspond to their special status. For example, civil servants have the duty to "obtain the authority they need to carry out their powers and functions," and "to perform official business in accordance with national laws, regulations, and policies." 3) Some of the rights and duties of civil servants are similar to the basic work rights and duties of citizens, but they have a deeper connotation. Since civil servants have more opportunity than citizens in general to deal with state secrets, duties in this regard must be more emphasized.

#### *How are civil service grades set?*

The following conditions are the basis for setting civil service grades: 1) the duties a civil servant performs (leadership or nonleadership duties); 2) amount of responsibility and degree of difficulty of the civil service position; and 3) the civil servant's substantive and moral performance, work achievements, and work experiences (mostly including time in current position and number of years work).

These factors play different roles in determining a civil servant's grade.

The extent to which duties determine a civil servant's grade. There are 15 civil service grades for the 12 civil positions. The grades cut across position lines from top to bottom. For each position there are from one to six grades. The higher the position, the fewer the number of grades. The lower the position, the more the number of grades. For example, the position of premier has one grade, but positions from deputy premier to deputy minister have two grades. For the positions from department director to deputy department director, there are three grades; four grades for the division director to section chief positions, five grades for deputy section chiefs, and six grades for section member to office member positions. If a civil servant holds a department director position, he may be from grade 5 to 7.

Substantive and moral performance, work accomplishments and work experience determine the grade that a civil servant should hold to be appointed to a certain position. For example, if a department director has been in his



current position and has worked for a fairly long time, and if his substantive and moral performance and work achievements are also quite good, he should be a grade 6 or 5, but not 7.

The amount of responsibility and the degree of difficulty of a position determine whether a civil servant appointed to serve in some positions may have one grade higher than a civil servant appointed to an ordinary position, other conditions being equal. For example, although the provincial government secretary also holds a provincial department or bureau grade, since his secretary job is a more responsible one in which the work is fairly difficult, his grade may be set one grade higher than that of a provincial department or bureau director, other conditions being equal.

*What is meant by civil service employment system? How does the civil service employment system differ from the former state administrative organization employment system?*

The term national civil service employment system means the system whereby national administrative organs select from society outstanding persons according to certain standards and through legally prescribed methods and procedures for work in government organizations. It includes mostly the following: principles for employment, standards for employment and qualifications, employment methods and procedures, and the organization of employment work.

China's civil service employment system is founded on a summarization of achievements in more than a decade of reform of the cadre personnel system in accordance with the thinking of Comrade Deng Xiaoping on reform of the cadre personnel system. It has been built by incorporating the civil service employment experiences of both ancient and modern times in China and abroad. The previous government organization cadre employment system has been substantially reformed. Its main features compared with the former organization cadre system are as follows:

1. Practice of the principle of openness, equality, and competition, selecting the best for admittance in accordance with ability and political integrity standards. The standards, requirements, methods, procedures, and results for civil servant employment are made public and are subject to public supervision. All citizens of the People's Republic of China who meet prescribed qualifications have equal right and opportunity to register for examination. Whether those who register are employed depends on the individual's political and professional caliber, state organs making selections for employment on the basis of test scores and the results of checks.

2. Use of open testing and strict checks for employment. Use of testing and checks in evaluating personnel quality for the objective and impartial selection of capable persons. The basic knowledge, professional knowledge, and professional attributes that meet position requirements of those taking the examination are evaluated through testing. Political ideology, moral character, work performance, and work ability of those taking the examination are determined through checks. Strict checks following open testing ensure the substantive and moral caliber of personnel.

3. Legally prescribed employment procedures. Except for special positions, the following procedures are followed in the employment of civil servants: publication of a notice that civil service examinations are to be given; examination of qualifications of those registering for examination; open testing of those found to qualify; checking of political ideology, moral character, and work ability of those who passed the examination; preparation of a name list of personnel to be considered for employment based on examination and check results, this list forwarded for examination and approval to people's government personnel departments at the prefecture city level and above.

Practice has demonstrated that institution of a civil service employment system better implements the party's line for appointing cadres on their merits and standards for employing people who are substantively and morally qualified. It ensures that personnel in government organs are of high caliber for the promotion of the building of clean government in official organs.

*What are the required qualifications to register for civil service testing?*

Qualifications for civil service examination registration generally include both basic requirements and special requirements.

Basic requirements are prescribed by national laws or regulations and include rights requirements, character requirements, and ability requirements. Rights requirements means being legally qualified to enjoy the rights of citizenship, such as the political rights of nationality and citizenship. Character requirements means moral character such as loyalty, honesty, and upright conduct, and whether one has improper deportment and habits. Ability requirements means basic ability to exercise state administrative authority and perform official state business according to law. It includes matters such as physical health, education, age, etc. Basic requirements to register for civil service examination according to "Interim Regulations For National Civil Service Employment" are as follows:

- 1) People's Republic of China citizenship, enjoying the political rights of citizens; 2) support for Communist Party of China leadership and ardent love of socialism; 3) observation of discipline and the law, upright character, and having a spirit of serving the people; 4) special consideration may be given as circumstances warrant to persons having college education or higher who are approved by the organization in charge of testing; 5) registration for testing for a job in a government agency at the provincial level or above requires two years or more of work experience at the grassroots level, special state-designated specialists excepted; 6) For persons in good health who are below 35 years of age, the age limits on testing may be relaxed subject to the of the authorities in charge of testing.

Special requirements means examination requirements in addition to the basic requirements for registering to take the examination for certain positions. They include matters such as special knowledge, special skills, practical experience, etc. The requirements for special positions

vary with different positions and are generally prescribed by the employing unit subject to the approval of the unit in charge of testing.

The above qualification requirements are the indispensable minimum requirements to become a national civil servant and to meet requirements of the position to which one is appointed. Those who do not meet these requirements may not take the employment test. Those meeting these requirements may be employed only upon passing the civil service employment test and waiting for the results of the examination and checks.

### Gao Fang Views 'Regression' in Political Reform

94CM0024A Hong Kong CHIU-SHUI NIEN-TAI  
in Chinese No 285, Oct 93 pp 56-60

[Article by Li I (2621 1837) and Fang Su (2455 4479): "Worries About the Flagging of Political Reform; Weariness With Gerontocracy—Another Interview With Professor Gao Fang (7559 2397)"]

[Text] At the end of 1988, this magazine interviewed Professor Gao Fang, director of the International Political Research Institute of the Chinese People's University in Beijing. Problems in reform of the China mainland political system were discussed, and the interview was published in the December 1988 issue of this magazine. Because of his position as both deputy director of the Chinese Political System Research Society and director of the Chinese Political Science Association, Professor Gao has a quite profound and realistic understanding of political reform on the China mainland. Also, because he has studied international politics, and has been a very close observer and analyst of the history of reform in the USSR and eastern Europe for the past several decades, he made suggestions as a contribution to political reform that are both realistic and that are appropriate to the leadership's understanding. He hopes to promote reform from within the system.

In September 1993, when Professor Gao arrived in Hong Kong again for an academic exchange, this magazine once again asked him for an interview, taking up again the same topics discussed almost five years ago. However, during the past more than four years, tremendous changes have taken place on the China mainland, in the USSR, and in East Europe. Thus, how to summarize these lessons, and the future trends of development were also key topics in this discussion.

During his stay in Hong Kong, Professor Gao was a guest of Hong Kong Chinese University. Chinese University Political Department Professor Weng Sung-jan [5040 2646 3595] also took part in the last half of this interview and expressed some incisive views.

### Why USSR and Eastern European Reform Failed

Question: We last interviewed you in 1988. We talked about Chinese mainland political system reform as well as the experiences in reform of the USSR and East Europe. No progress in political reform on the China mainland has been discernible during the past several years, but the changes in the USSR and East Europe demonstrate the

failure of reform within the system. Tell us, Professor Gao, is reform within the system still feasible, or will the system have to be reformed?

Gao: Reform of a socialist country is a formidable task. If socialist countries truly worked heart and soul to serve the people as all communist parties declare, there would be a way to carry out their reforms, and the way would be democracy within the party and people's democracy. Regrettably, reform of this kind failed in the USSR and East Europe. Soviet and East European reforms began during the 1950's with Yugoslavia beginning earliest. Following the death of Stalin, one after another East European country also conducted reform.

Question: Now, the outcome is worst in Yugoslavia.

Gao: Yes, because Yugoslavia's political system reforms failed. Even though Tito made reforms similar to those of Deng Xiaoping, detached himself from what Stalin preached, got rid of plan and instituted a market economy, Tito's political system remained a Stalin-style centralization of authority in a single individual, and holding leadership for life. It is not that Tito did not think of a successor, but the successor he appointed, Vice President Edvard Kardelj, died before he did. Thus, Tito did not appoint a successor in his final years. Both the national constitution and the party constitution explicitly provided that he be the president of the nation and chairman of the party for life. The reason he gave at the time was to safeguard the independence and sovereignty of Yugoslavia against the incursion of hegemonism, but a nation's independence and sovereignty must be founded on a system and not on a strong man. Otherwise it cannot last. Tito lived to be 88, but finally he had to go. While he lived, the serious ethnic rivalries in the country could be suppressed by the authority of a single person, but after he died, they could no longer be suppressed. After Tito, the lifetime presidency and party chairmanship were eliminated in favor of each of six republics holding the positions in turn. As a result, central authority shriveled, and regionalism ballooned. Thus, the experience of Yugoslavia was that it largely shucked the Stalinist model for its economy, but its political system did not change. It maintained the centralization of power in a single individual. After Tito, each of the republics also instituted centralized rule, and even waged civil war.

Question: At this rate, doesn't China's future situation offer cause for worry? It too has conducted only economic reform; it has not carried out political reform. After Deng, regional influence may also increase. The difference is that ethnic rivalries are not as strong as in Yugoslavia. Let us first talk about the situation on the China mainland during the past several years.

Gao: Political system reform in China has distinctly lagged in recent years. Originally, the Thirteenth Party Congress made some important decisions in 1987, one of which was "separation of the party and government." This was a very courageous idea because the lack of separation between party and government is a common failing of all socialist countries. The East European nations were unable to overcome this problem, but for the Thirteenth Party Congress to raise it was a very great step forward. Very regrettably, following the disturbances of "4 June" in



1989, not only was there no progress in the separation of the party and the government, but a regression instead.

#### **Mistaken Summarization of the Lessons of "4 June"**

Question: What concrete actions were taken following the Thirteenth Party Congress?

Gao: After the Thirteenth Party Congress, all the State Council ministries abolished their leading party groups as part of the separation of party and government. Formerly all ministries had leading party groups in which the minister served as group secretary. Within the ministry, major decisions were made by the party group committee and passed downward for implementation. This was what is frequently referred to as substitution of the party substitution for the government. No minister could make a decision independently; everything had to be decided by the ministry party group, and above the party group were the CPC Central Committee leaders. Decisions of the party group committee had to be reported to them. As a result of the separation of party and government in 1988, party groups were abolished. After "4 June," however, in order to strengthen party leadership, the party groups were revived in 1990 and 1991. This was the situation in the central government.

At the grassroots level, the enterprise law was passed, which explicitly provided that enterprises institute a "plant manager responsibility system." The plant manager was the center of the enterprise, and the CPC committee's role was to supervise and to guarantee, by which is meant to supervise plant activities to ensure that they conform to policies, to ensure that party members play an exemplary vanguard role, and to ensure the fulfillment of production norms. After "4 June," however, the "plant manager responsibility system under leadership of the CPC committee" came to the fore once again. Everyone asked: What is the position of the CPC committee secretary and the plant manager in the plants? The explanation from above was: The plant manager is the "center," and the CPC committee secretary is the "nucleus." The "nucleus" and the "center" seemed like a play on words. It was very difficult to say what was the difference between them. In short, in actual practice very many plant CPC committee secretaries again became the first in command in the enterprises. As to whether conflicts arose between the "nucleus" and the "center," that depended on the situation in individual enterprises. In some cases where the CPC committee secretary also served as plant manager, there was no problem. In other plants where the plant manager was only the CPC committee deputy secretary, if he did not get along with the CPC committee secretary, the situation was very unhappy. Likewise, in institutions of higher education, following State Education Commission approval, some schools tried out a "school president responsibility system" prior to "4 June." After "4 June," the situation changed again. Institutions of higher education that had no school president responsibility system could not institute one, and those that did have one had to reconsider the matter. They had to enhance the role of the CPC committee. The situation in which the party replaced the school administration revived.

Question: They did this because they feared loss of control, so they wanted to increase control.

Gao: They believe that the "4 June" disturbances had occurred because of the weakening of party leadership. The ideology of the students and of staff members and workers was confused, so they wanted to cause trouble. Consequently, they strengthened leadership. But I feel that strengthening of the party leadership does not require the party to take the place of the government, the party directing the government, and directing enterprises and schools. Superficially, this is a strengthening of party leadership, but actually it is a weakening of it. Why? Because it means that the CPC committee decides matters that the CPC committee should not decide—things like government administration, enterprise production, and school instruction. Furthermore, the party organization is itself not well run. My own observation during the past several years suggests that the apathy in party-organized life stems from the absence of strong leaders to take charge of party building. When the party replaces the government, the results are detrimental to administration, and detrimental to the party as well. I believe that this situation has occurred because some leaders mistakenly summarized the lessons of experience of "4 June." They also mistakenly summarized the lessons of the USSR and East Europe.

#### **"Leftism Can Spell the Death of Socialism"**

Question: How did they summarize the lessons of the USSR and East Europe?

Gao: They supposed that events there stemmed from a weakening of party leadership, which led to rampant liberalization, peaceful evolution, and the practice of a multi-party system, the CAP losing power as a result.

Question: What do you believe to be the reasons for the USSR and East European communist parties loss of power?

Gao: I believe it was because of the party having substituted for the government for a long period of time. It did not carry out fundamental reform, party leadership was highly concentrated and party leaders enjoyed lifetime tenure. The people lost confidence in the Communist Party. Look at the East European countries. Not only did Tito have lifetime tenure, but Todor Zhikov (Bulgaria), Erich Honecker (East Germany), and Nicolae Ceausescu (Romania) were all more than 70 years old. Had they not stepped down in 1989, they would also have served for life. They were all individuals in whom power was centralized whom no one supervised. This political system, unwillingness to make major steps toward economic reform, and slow economic development greatly widened the gap with western Europe. An important reason why changes occurred in East Europe first was its proximity to western Europe. People in East Europe were aware of living conditions in western Europe. They knew they could not compare with western Europe. Of course, aside from the influence of the west, most important was the mass foundation in each country. It was because the political opposition had mass support that it had appeal and was able to develop. This is very clear from a study of Poland. You can say that Wojciech Jaruzelski (the head of the Polish CAP) was weak, but he dealt forcefully with the Solidarity Trade Union. In 1980, he instituted military control, which lasted for a year and a half. During the military control period, some people who visited Poland saw that workers

at the Gdansk Shipyard were searched when they changed shifts to see whether they were carrying propaganda. Control was very tight, but the regime still could not keep going. You may say that Jaruzelski temporized, but I read his memoirs in which he said that he acted in the interests of the nation to avoid a national split: Since the working class did not want us, why did we hold power by force? Put them in charge, and they will find out that running a country is no easy matter. So, he wanted to save the nation. He knew that relying on guns for suppression might cause civil war. As a result, he was overthrown. Take a look at Romania too. Ceausescu was thoroughly "leftist." As a result his defeat was even more tragic.

The experiences of the USSR and East Europe put people in the mind of a Chinese saying: Yin, your mirror is not far. It is in the generations of the lords of Xia. This is to say that the Yin Dynasty should learn from what happened to the preceding Xia Dynasty. Thus, China should draw lessons from the USSR and East Europe. Deng Xiaoping's remark during his travels in south China that "'Leftism' can spell the death of socialism" means the same thing. In the USSR and East Europe, "leftism" came first followed by rightism. "Leftism" first followed by rightism combined to kill socialism. To look at these countries solely in terms of their rightist tendencies of the later period without looking at the "leftism" of their early period is wrong. In Romania, it was uncompromising "leftism" that spelled the death of socialism.

#### Old Men Do Not Start Out Intending Lifelong Tenure

Question: You mentioned Deng Xiaoping. Even though he holds no position today, his authority remains so great. Isn't this the same thing as lifelong tenure?

Gao: I think that old men do not start out with the intention of lifelong tenure. Following the Third Plenary Session of the 11th Party Central Committee in 1978, Deng Xiaoping proposed elimination of lifelong tenure. At the end of 1980, Hua Guofeng proposed to resign as chairman of the CPC Central Committee and as chairman of the Central Committee Military Affairs Commission. At the time, Deng enjoyed the confidence of the public. Everyone hoped he would stay on. Nevertheless, he demurred saying that he was already old. He suggested that Hu Yaobang become CPC Central Committee chairman. If the party wanted, he could serve for a time as chairman of the Military Affairs Committee. This showed that he did not covet high position, and that he also felt that he should retire, unlike Mao Zedong. Subsequently, he withdrew to the second line, but he was displeased with what others did. They caused difficulties. In 1982, the Twelfth Party Congress amended the party constitution to abolish the position of party chairman, replacing it with the position of general secretary. Formerly, the general secretary position had not been the supreme one in the CPC. When Deng Xiaoping served as general secretary during the 1950's and 1960's, he ranked seventh after Mao Zedong, Liu Shaoqi, Zhou Enlai, Zhu De, Chen Yun, and Lin Biao. Abolition of the party chairmanship, replacing it with a general secretaryship did not allow the general secretary too much power. In the years that followed, the older revolutionaries were not necessarily pleased with the performance of Hu

Yaobang, particularly the student demonstrations of 1986. An enlarged meeting of the Politburo in 1987 asked for Hu Yaobang's resignation.

Question: Before Hu Yaobang resigned, the oldsters held a "livelihood meeting," which was very much like the way the CPSU treated Nikita Khrushchev earlier.

Gao: Yes. By rights, this was not in keeping with provisions of the party constitution. Since Hu Yaobang had been selected by the full Central Committee, he should resign to the full Central Committee, not resign to the Politburo. The Politburo should have convened an emergency meeting of the full Central Committee. But the situation at that time was special; they did not do that.

Question: Several years ago you said that the CPC Party constitution also contained some ill-conceived spots, namely that when the party congress is in recess, the CPC Central Committee is the supreme organ of authority.

Gao: This is an ill-conceived part of the party power structure. No organization can have two supreme organs of authority, yet the CPC constitution explicitly provides that the party congress and the CPC Central Committee are both supreme organs of power. (Question: Isn't it acting?) No, not acting. The original text reads that the two are supreme organs of authority. This developed out of the 1922 CPC Second Party Congress constitution. I took some pains to research this. In 1985, I recommended to the party that this article should be amended because it was not fitting. Not only is it not consistent with general political principles, but it is not consistent with the tenets of Marxism-Leninism either.

Weng Sung-jan: Please excuse my cutting in. I think there are many things that don't make sense. An example is the use of the title "the CPC Central Committee and the State Council" when documents are issued, the "CPC central Committee" being put first.

Gao: By rights, the CPC Central Committee should issue documents to party members, and the government should issue documents to the people in the name of the State Council. This is a matter of two different systems.

#### Deng's Understanding of Power

Question: Your summarization of the shortcomings of political systems in socialist countries include the centralization of power in an individual, the lifetime tenure of leaders, and the appointment of successors. These are all matters that Deng Xiaoping has also talked about. Why can't they be changed?

Gao: Here is the problem. You see that his "18 August remarks" in 1980 show that he also understands these problems. He said that the system is more important than people, and he also said that the appointment of a successor is a method of feudalism. Up until the Thirteenth Party Congress of 1 July 1987, the "18 August remarks" were repeatedly published. Clearly, at that time it was still intended that they should be a programmatic contribution for guiding political system reform.

Weng: You say that he understands these problems, and I do not disagree. But I think he has another understanding, namely his understanding of power. He has been in power and out of power three times. He has a lot of experience.

He knows that positions may be given up, but that power cannot be given up. When these two understandings collide, it is very apparent which one will give way. When you balance what he says against other remarks he has made such as the United States is "three governments," you will find that what he ultimately believes is this: Power must be concentrated to be effective; power must be in one's own hands to be safe; and power cannot be divided. Once divided, there is no guarantee. If you discriminate on the basis of "leftism" and "rightism," you will see that opposition to spiritual pollution, and opposition to bourgeois liberalization were instituted only after he agreed. Clearly, he has an understanding of "leftism" and "rightism," but his ultimate choice is not necessarily either "rightist" or "leftist." On economic matters, his choice is very clear. It is a market economy. But this is not the case for political matters. He separates politics and economics. The more you look at him politically, the more conservative he becomes.

Gao: That's your opinion. I believe that the political system and the economic system cannot go uncoordinated for a long period of time. China has moved ahead fairly rapidly with economic reform. Economic reform has been conducted quite vigorously, and the people's standard of living has largely improved. Thus, lagging political system reform can be tolerated, but I fear there is a limit to how long the people will wait.

Question: Can one say that economic reform is buying time for political reform? Or is centralized government being used to develop the economy, political reform to be carried out after the economy has developed to a certain extent?

Weng: This is new authoritarianism theory. It employs only the points of commonality among Asia's several small dragons to explain their circumstances, but it ignores very many more important factors behind the scenes. Take Taiwan, for example. It started out as a private ownership system. Very many people who were dissatisfied with the government could get ahead economically. On the mainland, however, some able businessmen such as individual entrepreneurs have just appeared, but they still cannot compare with those who invest using state capital. In addition, Taiwan began local elections in 1950. This channeled a very large amount of energies that might otherwise oppose the government. A very important thing in these Taiwan experiences is that one cannot manage simply by using "economic decontrol and political repression." Therefore, new authoritarianism's understanding of the several small tigers is very lopsided.

#### **After the Oldsters Pass Away, Will There Be Opportunity For Change?**

Question: Gerontocracy is a major problem perplexing China. After the gerontocracy, how will the political situation develop?

Gao: Future developments are difficult to know; they depend on various factors. On the economic side, should the transition from a planned economy to a market economy not be done well, loss of control would be very easy. In addition, the separation of government administration and enterprise management must be thorough to permit enterprises to engage in market competition. Over

the long term, the problem of the separation of the party and government has to be solved; otherwise, both the party and the government will suffer, and the people will also be dissatisfied. I believe there will be an opportunity after the oldsters pass away. The issue of government system reform can be raised again. In short, the pace of political system reform will quicken. This is because the political system truly has quite a few problems. Democracy within the party is not fully developed, and people's democracy is not fully developed either. Take the election of people's representatives, for example. For the past several decades, this has been done indirectly. It cannot always be this way.

Question: Is it true that but for the old people factor, opportunities for change would be greater because the authority of the oldsters is a stumbling block?

Gao: Under ordinary circumstances, were the oldsters to pass away, opportunities for the development of democracy would be greater. So long as the oldsters are alive, not only must their advice be asked on important matters, but one must heed their views. They have a very great right to be heard. This is true not only of Deng alone, but of others as well. Chen Yun, Bo Yibo, Peng Zhen, and Wan Li may all write letters to the Central Committee. They are old revolutionaries. That their views carry more weight than those of party members in general is very natural.

Question: All the old political personages have an office. Documents have to be sent to them—at least to Deng Xiaoping.

Weng: The Thirteenth Party Congress made a resolution (Zhao Ziyang presented it) that Deng was to be listened to on important matters. I heard that the Fourteenth Party Congress made a similar resolution. This is carrying the rule of men to extremes.

Gao: One can only say that this is the way things are done in China. This is very difficult to understand under a modern democratic political system. Strictly speaking, this is not in keeping with the party constitution. Since they have already retired and have no position in the party, they have no public duties to perform. Under ordinary circumstances, there is no further need for them to have offices. But in China there are frequently special circumstances. At the present, it seems that Deng Xiaoping's views on important matters are still needed.

#### **Steadily and Peacefully or Unsteadily and Turbulent**

Question: If one says that opportunities for change will be greater once the oldsters depart, what will be the nature of the change? Will it be peaceful or turbulent?

Gao: It's hard to say. I am still hopeful about reform from within the system. Although some people abroad believe that reform within the communist system is hopeless, I still hope for reform within the system. Whether it succeeds depends on the growth of democratic forces in China, and it also depends on the growth of reform forces within the CPC. Economic factors also have a bearing. I believe that among the people—and that includes within the party—there are people who have noble ideals, representatives of the people, and democratic personages who will call for acceleration of political system reform, and who will make suggestions and call for measures. Whether they are adopted or not, the Central Committee will have to say so.



conduct trials. The different views within the CPC must also follow a course of democratic rule of law. They must be reconciled in accordance with the principles of a democratic legal system. Differing views should contend, the views of both parties given an airing and expressed equally. This is the direction of development I hope for.

Weng: After the strongmen depart, there is bound to be a period of turmoil, but excesses and purges will not likely occur. If there is tumult that is not policed by public opinion, things may get worse. The Taiwan experience is that during the latter period of strongman rule, speech was freed, and finally even curbs on newspapers and on political parties were eliminated. In the mainland today, there is still no freedom of expression. The public has little room for maneuver, but there are already a large number of mosquito newspapers, and news from outside China is more difficult to control. So long as decontrol continues, and efforts made to improve the regime's image, the people will have more cause for optimism.

### Scholar Views 'New Demands' on Political Reform

94CM0006A Beijing XINHUA WENZAI [XINHUA DIGEST] in Chinese No 6, 25 Jun 93 pp 6-9

[Article by Wang Huning of the International Politics Department of Fudan University: "Politics of the Socialist Market Economy Demand A New Power Structure"]

[Text] Comrade Jiang Zemin has clearly pointed out in his report to the 14th CPC National Congress that the aim of China's economic structural reform is to establish a socialist market economy so as to further liberate and expand the productive forces. It can be predicted that a brand new, unprecedented tide of reform will on a large scale be pound at and change China's social structure. At this moment when society is about to undergo great change, all clear-minded people should not plunge into economic affairs without thinking soberly about what political reactions and demands will be brought by such social change.

### I

With the advancement of reform and opening, the establishment of the objective model of the socialist market mechanism is making new demands on the political system. The advancement of reform has brought about, in government structure and function, many indispositions such as weakening of macroscopic control, overlapping of management systems, imbalance between central and local governments, unsuited administrative systems, and backwardness in personnel staffing. All these superficial phenomena essentially depict one problem: the issue of the adaptability of the power structure. A few years after the advancement of reform and opening up, Comrade Deng Xiaoping accurately summarized this general development trend. He pointed out that "the development of the present economic structural reform is exerting demands on political structural reform. Without political reform, the political system will hinder both the development of the productive forces and the success of the Four Modernizations." "It is important to be aware that the current political system is unfit for the demands of economic structural reform. If we do not carry on political

structural reform, achievements of the economic system cannot be guaranteed, nor can economic structural reform be pushed forward." The deepening of economic structural reform has increasingly raised new and urgent demands on political structural reform. In the process of examining such an issue, we should pay close attention to the following questions: What kind of role should political power play in China's social and economic development at the present stage? How should we organize and construct political power to meet the needs of social development? What are the principles and goals for the operation of political power? These questions have intrigued many people and were once heatedly discussed for a time. These numerous and confused views on power structure vividly reflect the great changes in the historical, social, and cultural conditions of Chinese society after ten years of reform. The change in social structure has raised practical and immediate demands on the political system. Whether or not the political system and the power structure it establishes are able to push forward the future development of China's modernizations will, to a great extent, condition the magnificent cause of China's modernizations. At the same time, the concerns and worries as reflected through the discussions on power structure also make clear that contradictions, conflicts, disharmonies, and imbalances have emerged during the changeover periods between the old and the new systems and structures. Whether or not the political and administrative systems, which function as the social adjustment and control systems, are capable of meeting the challenges, will determine a firm and smooth establishment of the new systems and new orders and will eventually insure an orderly establishment of the socialist market economy. Any society at a moment of rapid change will need such a power structure conducive for such change. Social structure and power structure supplement and condition each other. On many occasions, the two permeate each other. However, when the social structure and the power structure both undergo great change, the relationship between them should be readjusted. Viewed from a certain angle, the ten-year reform and opening up of the Chinese society can be considered as a reform of both the social and power structures. Regarding the social structure, its main changes can be summed up into the following six aspects: 1) The social environment is changing from a relatively stable one into one in which modernization drives are comprehensively launched all-roundly and the social structure is undergoing large-scale transformation; 2) The focus of the strategic objective and the value system of the society has been comprehensively shifted from political movements to economic construction; 3) Social management techniques have changed rapidly from traditional methods to modern ones, and sophisticated means of technology are comprehensively entering the social adjustment and control process; 4) Great changes have taken place internally in the social structure and administrative system, with new structural formations emerging one after another; 5) Social psychological norms are changing in the atmosphere of modernization and have changed the interior dynamic system of the social and administrative systems; 6) Means and principles of social management have been weeding through the old to bring forth the new, and the development of Chinese society creates and calls for new management systems.

In view of the power structure, the operation of power relations has taken on the following changes, which can be regarded as the future orientation or development trend of power relations (Here power relations are examined through their macro control over the society, i.e., their behaviors are summarized mainly as macro control in nature.): 1) From political control to social control. In the past, management was done through political means and was concentrated on limited political affairs, but today a large amount of social affairs are being fed into the control system. 2) From centralized control to decentralized control. In the past, highly centralized power modes were adopted to ensure comprehensive management, but today control is managed through the modes of delegating power to, or authorizing the lower levels. 3) From direct control to indirect control. In the past, all sorts of affairs were handled by direct management, but today they are controlled indirectly. 4) From microscopic control to macroscopic control. In the past, every department in charge of the national economy and people's lives was managed from the authority level to the grass-roots level, but today focus has been shifted to an overall strategic control. 5) From vertical control to horizontal control. The past management, so-called linking management, ran from the higher level down to the lower level, but now horizontal coordination has been developed. 6) From maintenance control to developing control. The past emphasis was laid on the maintenance of the established target system and value system, but the present focus is on the widespread rapid development of society. 7) From standardized control to adaptive control. In the past, management was done strictly according to the existing standardized system and all sub-systems were controlled by and prohibited from drifting away from such a standardized system. However, innovating management norms and methods in the ever-changing social life has increasingly been emphasized to meet the emerging challenges from society. 8) From repressive control to driving control. In the past, focus was placed on the control of social movements, but now social movements are, as demanded, a force propelling social development. 9) From authoritative control to informative control. In the past, management was enforced mainly through power dynamics—"hard power"; but now much emphasis has been laid on the collection and assignment of information, using such "soft power" to advance social movement. 10) From inward-looking control to outward-looking control. In the past, management dealt mainly with the internal affairs within a relatively closed society, and was not easily influenced by international factors. At present, however, control is done in an open society. Not only should it meet the challenges of the global environment, it should also actively join the international society. Looking back on the actual social process of the ten years of reform and opening up, and comparing the scales of changes of the various groups of variables in the two aforementioned fields, we can easily find that both the degrees and scales of the changes in social structure are higher and larger than those of the changes in power structure. Social structure here is a complex system encompassing various aspects of politics, economics, and culture, among others. China's ten-year reform began with economic reform and has taken a course from rural reform to urban reform, from product economy to merchandise economy, and from planned economy to market economy.

It has largely changed China's existing social structure. It is an unprecedented reform. In addition, because of the comprehensive opening up and the impact of international society, social and cultural psychological norms are also evolving. In the past ten years, the power structure of the society has been undergoing great changes and making enormous progress; but compared with the speed of change in the social structure, it still lags far behind. Reform has rendered the existing power structure increasingly unfit for the developing social structure. This can be proven by the unexpected difficulties the present reform has encountered. The development of the socialist market economy will further expand the gap between them. So it can be concluded that further development of China's modernizations will call for a new power structure.

## II

A structural change in the original system demands a corresponding change in power structure. The fundamental cause lies in the characteristics of the original system. The power structure in a society under the planned economy mechanism is highly centralized. The characteristics of such a centralized system can be roughly summarized as follows: An integrated entity of political party and government administration, an integrated entity of government administration and economy, an integrated entity of government administration and management, and an integration entity of government administration and society. The power structure under the original system was based on such an integrated social structure. The ten-year reform has brought about spectacular changes to the original system. Correspondingly, the existing power structure cannot match the new social structure. "Acclimatization" or even weakening will appear in all aspects of the system, procedure, function, authority, and dynamic processes. Thus, contradictions and conflicts in such a changing society will become extremely acute. Yet, the power which should be responsible for the needed adjustment and control cannot be properly guided. When the establishment of the socialist market system is being pushed forward vigorously, the impact on the old system will become more intense and thorough. The choice of such a strategy and the vigorous objective development process have resulted in the adjustment of the power structure becoming an imperative issue. A basic judgement can be made through the above analysis: What needs to be done now is structural adjustment of the power structure. Partial adjustment of power relations will not help solve the problems. The adjustments of all aspects of the power relations have been accumulated, which need to be consolidated by a still more macroscopic control. Structural adjustment of the power structure can be divided roughly into three fields: the political, the administrative, and the social power relations. They are deliberated respectively as follows:

A. Political Power Relations. Any society's large-scale reform will first make demands on the political system of the society. The demands of social development as exerted on politics vary at different stages of social development, in different societies, or at different levels of political, economic, cultural, and moral development. A rational political developmental strategy should make clear what these basic demands are so as to meet the demands of



social development and thus push forward political development efficiently. The basic demands on the political system as raised by China's reform and opening are: To meet the needs of profit sharing brought about by large-scale changes in social structure, to synthesize efficiently all sorts of demands emerging from social development, to formulate definite and appropriate policies to balance all kinds of power relations in order to preserve dynamic political stability and to promote a sustained advancement in the society's modernization course. To meet such demands, the political system should be reformed. Meeting all these above-mentioned demands needs to be done through the adjustment of political power relations. This implies a demand for a higher degree of democracy. The development of a socialist democratic polity plays an important role in the process of pushing the development of the market economy. Fulfillment of needs, scientific policy-making, and a stable polity are all related to democracy. Paths for development are: 1) Optimize the legislative system of the whole society by means of perfecting the National Congress system and forming a majority-based dynamic political mechanism in the society. 2) Optimize the leadership system of the whole society, solidify the political leadership system through the ruling party leadership and its relationship with the government, other parties, society, and enterprises. 3) Optimize the political consultative system of the whole society; i.e., build a broad consultative system by perfecting the Political Consultative Conference. 4) Optimize the policy-making system of the whole society; i.e., facilitate comprehensive decision exchanges and information flows by way of setting up an organic policy-making system at all levels of the society and from the society to the policy-makers. 5) Optimize all aspects of political power relations, namely, propel the integration process of the political power relations by perfecting the relations between party and government, government and enterprise, state and society, central government and localities, as well as cadres and masses.

B. Administrative Power Relations. The development of society will demand the political system favor not only democracy but also high efficiency. The development of modernization and the socialist market economy in particular calls for high efficient government operation. In such a process, the society changes rapidly and problems are quite complicated. The society has especially high demands on the art of government leadership. If the government cannot adapt, it will be hard to establish a socialist market economy, or the socialist market economy will not be established according to people's subjective wishes. Thus, the demands set on the government administrative system by China's social development are: Bring the enormous energy and the most sophisticated art of government administration and management into full play in accordance with the objective demands of social development and with the political strategic objectives established by society, so as to push forward the development of the society evenly, creatively, and vigorously. An administrative development strategy is called for to meet such demands. Basic aspects of this strategy include: 1) Establish a properly oriented administrative functioning system rationalizing the government administration through shifting the functions of the government administrative departments. 2) Establish a low cost administrative and management system and put useful resources into the

development of the society to reduce administrative costs by streamlining bloated organizational structure and personnel. 3) Establish high quality government managerial personnel by setting up a stable professional and procedural personnel staffing system through implementing the policy of government service. 4) Establish a vigorous administrative surveillance system to ensure that social development follows a correct course by strengthening the functioning departments of legislation, administrative supervision, industrial and commercial management, among others. C. Social Power Relations. Social development, especially the development of the socialist market economy, will lead to the replacement of social power relations, including the relations between all levels of the society, the relations between social groups, the relations between various fields of society, and the relations between people in society. The requirements for the development of social power are to cultivate, in the social development process, stable, balanced, and active social power relations, and to guarantee a harmonious social life and psychological mode, thus establishing a firm basis for social stability. The development of social power relations includes: 1) The development of a democratic system at the grass-roots level; i.e., the formation of grass-roots democracy by promoting autonomous mass organizations in the community and within units. 2) The development of dynamic interactions between political, administrative systems, and society. This refers to realizing integration of society with politics by strengthening the close relations between political power, administrative power, and society. 3) The development of rational power relations between society and various subjects; i.e., the adjustment of social power relations by recognizing the demands of social development.

All the above discussions concern some major issues. In a word, the superseding process for the social structure is also the superseding process for social order. The launching of a socialist market economy will inevitably have an impact on the previous social order, thus developing it into a brand new social order. At the high tide of the socialist market economy, the social order based on the existing social structure and power structure has gradually disintegrated, but the new order cannot be brought into full play before a new social structure and a power structure have been effectively established. If the power structure cannot make prompt adjustments, disorder and disharmony would be hard to cope with.

### III

Right from the beginning of reform, China's social development has raised demands for a new power structure. The growth and development of the socialist market economy make even more urgent and immediate demands for such a new power structure. It can be easily understood that the establishment of such a new power structure would call for new power. Power is frequently associated with authority, but not always so. The change of social structure often results in such a phenomenon: If the power structure suited to the old social structure does not change concurrently with the change in social structure, its authority will gradually dissipate even though the old power structure may continue. As regards the power structure, it is not keeping up with the new developing social structure. From

the perspective of functionality, it is not in harmony with the latter. In view of ethics, it cannot be acknowledged by the society simultaneously with the latter. In such a state, political power cannot guide efficiently the development of the society. Up until the present stage of development, the Chinese society has faced just such a possible consequence. This is the objective need for a new power structure. The reason that a new power structure is needed lies in that it will serve China's goals of modernization and democracy and that it will serve the development of the socialist market economy. During the transition period of social structure and social order, the roles of coordination and promotion which political power plays in social development appear particularly important. It appears even more important for China, given the huge size of its society. Every political power must have authority if it is to play such roles. Without power and popularity, any political power will find its ability falling short of its wishes. Engles once said: "We may also see that the physical conditions of production and circulation will inevitably become complicated with the development of large scale industry and agriculture, and will tend to increasingly expand the scope of power influence." In the life of modern human society, absence and weakness of political authority will turn out to be disastrous. Some symptoms emerging in the Chinese society today are of concern. Expansion and worsening of these symptoms will be unfavorable to achieving modernization and democracy, as well as the development of the socialist market economy. In China today, the old power is facing severe challenges along with the dissipation of the old social and power structure. Samuel Huntington, a professor of Harvard University in the United States, has provided an in-depth analysis of the challenges which the reforming societies are facing. He believes that "the reformer not only must be more adept at the manipulation of social forces than is the revolutionary, but he also must be more sophisticated in the control of social change. He is aiming at some change but not total change, gradual change but not convulsive change." That is to say that the strategy of reform calls for a better power structure, a more appropriate political authority, and a more sophisticated political art. One of the objectives of such a new power structure is to reestablish power by structural reconstruction. Therefore, the reform of power structure cannot be done in the absence of the power reconstruction; otherwise, it will become irrational. Power may come into being in various fashions. But in the modern political life and in a country seeking for political democracy, power can only be reconstructed through a democratic system. The difficulty that China encounters is that it has not yet established a high-level democratic system due to its long ignorance and the prolonged presence of a highly centralized system. Thus, under present conditions, it is not practical and lacks sufficient conditions needed to establish a new power structure and correspondingly, the necessary authority, unlike a mature democratic system. The reasonable choices are to rely on the existing democratic process as much as possible, to give full impetus to democracy initiatives in the process of establishing a new power structure, and to control simultaneously the actual functioning system, thus bringing its positive effects into full play. Democracy and power are not contradictory. Democracy may help to establish power; it does not antagonize power, either. A modern human society

without authority is unimaginable. It would be even more unimaginable if China, such a huge society poised at a critical period of social structural revolution, has no authority. The basic challenge which the Chinese society is facing during its transformation period is that the inherent authority of the old power structure has gradually dissipated and it is quite difficult to control and guide the rapid development of the society. The old power structure still remains, but the authority has disintegrated. An urgent task that China's reform is facing is to make the political system, which functions as the central system of the society, restore its authority. A new power structure is needed to accomplish this task.

#### IV.

Every person who has seriously pondered the reality of China's development must have been cognizant of the urgency and necessity of establishing a new power structure. It can be said that serious reflections on the power structure are the most valuable experience or lesson we have learned from ten years of reform. Every power structure is founded on certain principles. At all times and in all countries, there exist various principles on which the power structures are based. They can be summed up into two categories: The democratic and the undemocratic. There is no doubt that the evolution of the modern society and human spirituality has defined the unavoidable ends of social development: Social democratization and political democratization. Democracy has progressed unprecedentedly in this era. In view of the ultimate aims, such a historical orientation in the evolution of the whole human society is also the orientation for the development of Chinese society. Certainly, what should be promoted is a socialist democratic polity suited to China's national conditions. The present new power structure and the would-be ones will certainly give impetus to China's democratization process. Therefore, the new power structure we are concerned with should aim at promoting the advancement of democracy. During any transition period between the old and new social structures and orders, democratic and non-democratic options will be provided. At this very moment, we should particularly hold on to established goals. Promoting democratic advancement implies that the constitution of a new power structure will inevitably be examined from both short-term and long-term perspectives. Some choices may yield good results in the short term, but may be unfavorable for the advancement of democracy in view of historical development. While other choices may not be so effective in the short term, they may turn out to be essential in the long run. The assertion that the new power structure is aimed at democratic advancement implies that the formation of democracy is viewed as a comprehensive process of social development. The formation of a democratic system requires certain historical, social, and cultural conditions. When these conditions are still not ripe, the democracy-oriented political power should try its best to nurture and bring about the growth of these conditions. Lenin has pointed out that "just like the common superstructure of any politics—such superstructure will inevitably be existing before the abolition of class distinctions and the establishment of a classless society any democracy is, in the final analysis, in the service of production and is conditioned by the relations of production in that society." At present, the goals of China's

political development and democratic politics should be in the service of modernization and the establishment of a socialist market economy. Divorced from such a general social developmental direction, democratic politics will unlikely be developed vigorously. In short, the change in China's social structure initiated by the development of the socialist market economy calls for establishing a new power structure. The transformation of the old order demands a force to promote the growth of a new order. M. P. Todaro, a renowned developmental economist, views administrative management as "the most scarce resource" in developing countries. He believes that governments of the developing countries are bound to take more initiatives and more responsibilities for the prosperity and well-being of the countries, and will increasingly play a leading role in economic development. Whether or not the Chinese society is able to establish a new power structure through changes and adjustments will be one of the critical conditions for the success of the socialist market economy and the success of the modernizations.

#### Article Questions Labor: 'Masters' or 'Commodity'

94CM0027B Beijing SIXIANG ZHENGZHI GONGZUO YANJIU [RESEARCH IN IDEOLOGICAL - POLITICAL WORK] in Chinese No 9, 8 Sep 93 pp 24-26

[Article by Zhang Chunlei (1728 2504 7191): "Are Workers Still 'Masters'?—Study of Worker's Master Consciousness in State-Owned Enterprises"]

#### [Text] Issue Proposed

In line with continuously deeper enterprise reforms, a sizeable number of staff and workers (particularly surplus personnel, off-duty personnel, personnel awaiting employment and old workers) believe that reform has weakened the position of the working class as masters and diluted the consciousness of the working class as masters, making us become wage laborers. They ask: Are we still "masters"?

The present conundrum brings to bear certain theoretical conflicts with various interpretations. The focal point is whether labor takes the form of a commodity under socialist market economic conditions. Some comrades believe that if we approve of this then the wage laborer mentality may breed among managers and general workers. Once such a theoretical controversy is refracted to actual life and transformed into actual policy, it may make the position of the working class as masters in their own homes and their role as the main army take on a layer of murky hues. Other comrades believe that market economics requires that each factor of production (including the factor of labor) be able to rationally circulate and be allocated as a precondition to allow realization of the best combination of workers and production materials, beneficial to enhancing workers' subjective consciousness. Still other comrades believe that a broken egalitarian "iron rice bowl," enterprises' use of a factory head responsibility system labor, and strict enterprise management are all labelled as the soil engendering a "wage laborer" mentality, then such a "wage labor" mentality is inevitable and should be advocated and proposed even more than the traditional meaning of "master consciousness."

Of course, we can neither avoid nor hold off these issues.

#### Historical Review and Inquiry

The notion of "master consciousness" came and developed out of the specific historical conditions of toppling the three big mountains and establishing a new China. Comparing the new and old societies, the working class realized strongly and concretely a feeling of standing up and being the master of its fate. It felt the superiority of production relationships brought by the new system, radiating unprecedented positivism and creativity. This generation of workers bearing such an awareness of class consciousness, a political sense of pride and historical mission high spiritedly ascended the stage to create a new world. In this formative opening of a new historical period, it exhibited enormous revolutionary zeal and a spirit of historical initiative, rapidly cleaning up the filth and mire left by reactionary politics, healing the wounds of war and establishing a brand new society.

At the same time, history displayed in front of the people some issues worthy of deep pondering: for a long time, the troops of industrial workers continuously got stronger without greatly improving labor productivity as Lenin initially envisioned. Under the new production relationships in enterprises in which masters assemble, the proper vitality and life did not emerge and economic results fell. While encouraging the enthusiasm of working class masters through political means, the opposite situation emerged: Worker discipline slackened, worker zeal flagged and there was ever lower enthusiasm in the quest for knowledge and technological advances.

Some comrades say that the issue of weakened master consciousness emerged only after reform and opening to the outside. This does not accord with the facts. Precisely the opposite: The issue emerged and developed to a serious stage before that. Major causes of the issue's emergence are the old commodity economy system and various abuses it produced.

The first reason working class master consciousness was weakened and sold out under the commodity economy system comes from flaws in traditional theory. Traditional theory only stops at the victory of the revolution, at the level of the general notion of a public ownership system of the means of production "commonly held, commonly managed, commonly used and commonly enjoyed" in which the working class are masters of the state and enterprises. Throughout it does not resolve the relationship of ownership among the state (in the form of state holdings), enterprises and workers. It does not resolve the means of combining laborers and ownership of the means of production. Even more so, it does not clarify the proper duties, rights and responsibilities of laborers in the position of masters. Thus, in practice there is no way to realize the duties, rights and responsibilities of masters or participate in managing enterprise production or operations. For the majority of workers, being "masters" under such conditions and environment merely is a lofty "theoretical position," a slogan.

Another flaw of traditional theory is that it does not resolve well the relationships between socialist enterprise subject and object and people and things. Marx noted that in capitalist enterprises, the personification of capital is the subject of an enterprise and workers are objects



employed by the enterprise as capital; thus, materialized labor (dead labor) rules living labor. In other words, it is a perverse situation in which "things" rule "people." Socialism aims to change this situation thoroughly and manifest public ownership of the means of production, making workers become masters of the means of production and the subjects of enterprises. Thus people—the most animate element of productivity, can develop their initiative, zeal and creativity to the greatest extent. However, this point is not really reached under a product economy system. From start to finish workers occupy an abstract subject but actual object position. Here, the rights of enterprise workers as masters in their own houses basically have been supplanted by political organizations. Here, simple public ownership in the form of ownership by the state creates an actual divide between laborers and the means of production, meaning workers have not and are unable to become masters of the means of production. Here, each link in production, circulation, allocation and consumption have all become "affairs" of "state." Enterprises have no right to self-autonomy. Here, there is little actual relationship among an enterprise's rise and decline, the quality of products, and workers.

Egalitarianism is another important factor hindering the formation and development of working class master consciousness. It greatly dampened the initiative of laborers, making the quest for knowledge, science and technology disappear. It constrained the basic impetus for productivity to advance, lowering workers' living standards and actual economic position. There is a great disparity and deviation from the "lofty position" of workers propagated politically. If the broad masses of workers who are masters of the means of production owned by the whole people cannot be compensated according to their work and cannot get more by working more, then their position as masters cannot be fully and totally realized.

Summarizing the above, one can come to this conclusion: The victory of the socialist revolution is manifested as public ownership of the means of production, and the standing up and liberation of the working class, and becoming masters of the state and society; master consciousness becomes the seed of a new class consciousness for the working class. However, under the old product economy system and with the role of egalitarianism, the working class did not actually become masters of the means of production. The seed of a new class consciousness by the working class did not put forth new growth, consolidate or develop. This proves that the old economic system, economic relationships and ways of producing really must be fundamentally reformed.

#### **Deeper Reform and Reappraisal of Master Consciousness**

In line with enterprise reform developments and deepening, transformation of production and operation mechanisms, and gradual creation of new mechanisms, there is new growth and epochal meaning to working class master consciousness and the nature of classes.

Reform makes enterprises become self autonomous, self developing commodity producers and operators responsible for their own profit and loss. The new operational autonomy makes enterprise workers have visible rights, responsibilities and obligations for that portion of assets

owned by the whole people which they hold and control. Besides having to attain the goal of ensuring and adding to the value of assets of the whole people, they also must strive in the interests of the workers and for the enterprise to exist and develop independently. Such visible responsibilities, rights and interests alter laborers' position as subordinate and passive objects. They manifest laborers' position as masters of the means of production owned by the whole people. They also are found as an effective way and means to combine labor and the means of production ownership system.

Reform enhances the cohesion of enterprises and remolds the mutual relationships between laborers and labor collectives, and laborer and laborer. Enterprises become worker "homes" worthy of the name. Interests are commonly shared, risk is commonly borne. Enterprises and workers have combined fates and interests. Here, the spirit of collectivism is newly expanded: The work of every laborer is merged with that of the collective. The responsibilities and interests of each laborer and those of the collective are intimately connected. These profound changes have a clearer, more concrete and more actual implication for worker as master consciousness: The masses of workers' position as masters is realized greatly, mainly and commonly as workers' democratic participation in the production, operation and management of an enterprise. It is realized as visible responsibility for an enterprise's existence and development and as the material interest principle of getting more for more work.

Reform destroys egalitarianism. To a greater extent and in a wider area it raises labor productivity rates, effectively manifesting the principle of to each according to his work. Economically it ensures the rights of laborer as master. Baoshan Steel, which practices a contract responsibility system, rationally expanded allocation differences according to different posts and contribution size. It links work and productivity, stressing resolution of the conflict between the multilevel structure of labor and the unitary nature of wages. It designed and promotes a wage system characterized by wage differences reflecting differences in labor according to different worker posts, work responsibility, skills, employment continuity and seniority. The wage system is composed of the five-wage elements of post, skill, seniority, continued employment and bonuses. Each department objectively analyzes the quantity and quality of labor. Based on this and corresponding to the labor system factors, it is promoted with strict testing and attention tilted toward posts that are arduous, high pressure, tiring, dangerous or high temperature. Capital Steel uses a new system of "workers directly participate in profit allocation, fully realizing the principle of to each according to work." After submitting profits to superiors, the enterprise allocates the remaining profit exceeding contract according to a 6:2:2 proportion, of which, 60 percent is used for reinvestment and to develop production; 20 percent is for worker bonuses to establish a floating allocation system linking bonuses to higher grades on the basis of contracts fulfilled by a person's grade; and the other 20 percent is for a collective welfare fund, used to build dormitories for workers' dependents, welfare facilities and daily welfare outlays. The higher the enterprise's economic results, the higher the retained profit and the faster production develops. Workers' material and cultural life can

be improved correspondingly. Such an allocation system fully realizes the masses of workers' position as masters.

The aforementioned profound changes indicate that there are new developments in working class master consciousness under new historical conditions, clearer, more concrete and more actual implications. In sum, such master consciousness implies awareness of responsibility, power, interests, democratic participation, the legal system, competition, and so on. Overall, these rich and organically connected and unified contents constitute the working class master consciousness of contemporary China.

#### Exploration of Certain Difficult Actual Theoretical Problems

Reform naturally brings changes and readjustments to interests, lifestyles and spiritual states. There is a "feeling of loss" of being "masters" by workers in some state-owned enterprises. For example, some workers believe that "in socialist enterprises everyone has a job and food to eat," "socialism will not allow workers to be unemployed or await employment," "reform weakens the position of worker as master, altering away the superiority of socialism," "a labor contract system reverses the relationship between master and servant," or "socialism seeks to destroy exploitation and differences and manifest fairness but present policies precisely are unfair and unjust."

These ideological conundrums relate to the issue of how to understand the position of worker as master. They relate even more to some fundamental principles intimately connected to the notion of "masters," and of how to understand socialism and the superiority of socialism.

Regarding the issue of "everyone has food to eat under socialism," this is a proposition which has been considered inviolable by gods or spirits for several decades. It is the most common way of talking about the superiority of socialism. It is the most general exposition of masters' rights. Its direct theoretical origin is: The revolution expropriated the expropriators. The laboring people jointly own the means of production, becoming masters in their own homes; thus, everyone should have food to eat.

It should be said that this proposition has a rational component, because it affirms the rationality of the socialist system: Expropriate the expropriators, and the laboring people hold the means of production. However, at the same time, this proposition is specious because it neither clarifies nor implies the actual conditions for "having food to eat." It can lead people to believe precisely the opposite.

The victory of the socialist revolution and establishment of a socialist system of public ownership only provides an objective "premise" for "everyone to have food to eat." In other words, it only provides a "possibility." To turn this "possibility" into "reality" still requires the addition of the most important link: To each according to his work and each does his all. Namely, laborers provide their own labor to society, do their duty to the utmost, and thereby enjoy their own rights in society. Those who more than fulfill their duties can enjoy relatively more benefits, while those who do less receive less and those who have the ability to labor but do not do so shall not eat. In sum, this is: "Under socialism everyone should depend on their labor to eat."

Without mention of labor, sacrifice, each does his all, or to each according to his work, but only a general saying that "everyone has food to eat," it seems as though everyone can all comfortably lie down on the bed of socialism and "eat."

This clearly is an enormous misunderstanding of socialism. Therefore, we have reason to say it this way: Each does his all, to each according to his work, and those who do not work shall not eat. This should become the clearest, most motivating, most honorable master consciousness of the socialist working class.

Issues regarding the relationship between "master and servant." The core of this matter is how to understand the status, position and role of a "servant." Actually, this is an other matter which has long been misunderstood and subject to various interpretations.

A common saying in traditional theory is that workers are masters, the operators of enterprises—and factory heads and managers are the "servants" who serve the masters. For so many years now this saying has been steadfastly upheld. It has been instilled to prove the position of worker as master. However, in actual reform this theory runs into a conflict which is difficult to resolve. Workers may exclaim when implementing a labor contract system for all workers or when workers make a labor contract with managers; yet, how can a master sign a contract with a servant? Isn't this a reversal of the master-servant relationship? Some workers go as far as to pick up the scarlet contract and say, "What I have here today is a master's 'agreement to sell himself.'" When a factory head or manager dismisses a worker or handles a breach of discipline, the worker may inquire, "How can a servant dismiss a master?"

It seems the problems still lie within the lopsided, narrow and simple understanding of Marxist theory.

Socialist and capitalist enterprises differ fundamentally. These differences lie neither in the organization and development of productivity nor in the operation according to market economy operating mechanisms but rather in internal production relationships. The most basic difference is in the position and role within an enterprise of all workers, including mental and physical laborers—including factory heads as well as every common worker. In socialist enterprises the factory head has a position equal to the common worker. There is no difference. They are both equal members who jointly hold the means of production and jointly enjoy production relationships in a public ownership system. It is on this point alone that one could consider a factory head the master of an enterprise.

A factory head bears a socially bestowed obligation because of the need to organize production, and because of differences in the division of labor and interests and the need for "authority" as Engels said: Becoming the "collective representative of the masters' interests" representing both the state and the workers.

This is precisely the issue we intend to explain: A factory head definitely cannot be a mere "servant"; he first must be taken as a master as well as the "collective representative of the masters' interests."



At the time of expounding the Paris Commune Revolution and establishing a new society, Engels used the term "society's public servants" to describe the differences of labor in society. Such a division of labor mainly referred to state regime and state organization personnel. Undoubtedly this is correct. This is entirely possible if considered from the aspect of a social division of labor, saying a factory head is a "public servant" or "servant," and that a factory head should serve the workers. The problem arises from a misunderstanding: some understand "servant" as a mixture of concepts from different categories—the two entirely different levels of the social division of labor and production relationships.

If we can determine the "position" of "a factory head also is a master" and "the collective representative of the masters' interests," then in practice issues such as the relationship between a factory head and a worker and the role of a factory head will not become so complex and

difficult as described. Then, here a factory head "representing the workers" making a labor contract with each worker cannot be seen as a wage labor relationship but as a kind of concrete, single joint relationship of duties and rights between the "master" and all "masters." Here, a factory head dismisses a worker or deals with a breach of discipline "representing the workers." Huang Guancong [7806 7070 1783], nationally famous entrepreneur and former head of the Shanghai No 2 Textile Mill made stated it like this: When I deal with a worker it is not because he has done me a disservice but because he has done a disservice to all 4,000 workers at the mill. Thus, I have the authority to represent 4,000 workers who employ me to deal with him. This statement explains this rationale.

We sincerely hope that theorists can continue to explore actual theoretical questions that may still arise such as socialist fairness and efficiency, socialist employment and the need for market economy labor circulation and assignment, and the position and role of the individual in political and economic life.

## NATIONAL AFFAIRS, POLICY

**Railroad Authorities Rectify Corrupt Practices**

94CE0050A Beijing JINGJI RIBAO in Chinese  
23 Sep 93 p 3

[Text] The national railroad system is enhancing society's supervision of, and internal reorganization against incorrect and corrupt problems of profiteering in train tickets and increasing prices and accepting additional fares at will; this has become an all-out rectification campaign. Recently, there were 139 cases under investigation in the entire transportation system. Corrupt practices are now calming down. The State Council leadership has pointed out that the railroad is the country's window, connecting various professions and serving thousands of households. The state of the railways not only affects the railroad system's image, but also has a large effect on society. We require that the railroad system hold the forefront and be a model for rectifying corrupt practices. Thus, based on the completed two-phased four month rectification, the Railway Ministry started to increase the degree of rectification in early September. Since 15 September, the three levels of road bureaus, subbureaus and substations selected more than 10,000 cadres to establish corrupt practices working groups. They wear armbands imprinted with the words "corrupt practices investigation." They come to the passenger trains, ticket windows, and baggage delivery sections to investigate every charged item and service offered. The working groups take full responsibility. When it happens that prices are increased at will, and trains and tickets are used for making personal profits, not only will the involved people be punished strictly, but the working groups will be questioned concerning the charges. At present, working groups' personnel can be seen everywhere at more than 1000 national customer train stations and more than 500 important cargo stations examining and punishing immediately any principle violations. A working group at the sub-bureau in Jiamusi discovered that a train policeman on line 193 asked for three hard-sleeper tickets from the train manager, and then sold them to customer for a profit of 150 yuan. The working group ordered him to return the money to the customers, and wrote a self-criticism letter, terminating his employment. The Harbin railway bureau decided to expel the policeman from his rank and fined him 1,500 yuan. Since 15 September, employees at customer and goods service windows throughout the entire railroad system gradually started to provide services while displaying badges to enhance society's supervision. On the badges are written the names of each worker's unit and service number, and their pictures are shown. Employees are not permitted to work at their posts without the badges. In this way self-control is increased, and it is convenient for accepting society's supervision. At the same time, every train station, cargo and customer train all provide public information concerning service charges which allow customers and goods owners to easily understand and supervise. Items charged for prices that are not publicly listed are considered to be charged at will, and prices that are more than the publicly issued prices are considered to be increased at will. Many customers and goods owners have stated that these measures have allowed them to relax at heart. To improve society's supervision, the railroad system from the top

down to the railroad bureaus, sub-bureaus and stations, published in the media 1,020 telephone numbers for reporting corrupt practices. Thus the supervision net is spread along the railroad. (The telephone numbers of the corrupt practices supervision at the Railway Ministry are 3242023 and 3247023). Some trains and local stations have also established "the corrupt practices reporting box," and have told customers and goods owners over the radio that only senior officials have the right to open the boxes. Because the methods to rectify the corrupt railroad practices are dependable, the corrupt practices will be reported as they happen, forcing perpetrators to give in.

**CASS Industrial Institute Director Comments on Ownership**

94CE0090A Beijing JINGJI SHEHUI TIZHI BILIAO  
[COMPARATIVE ECONOMIC AND SOCIAL SYSTEMS]  
in Chinese No 5, 10 Aug 93 pp 26-29

[Article by Yin Wenquan (6892 3306 3123): "Ownership Is an Economic Medium—A Special Interview With Professor Zhou Shulian"]

[Text] Since the adoption of reform and opening up 15 years ago, the development of China's domestic economy has attained achievements which have gained worldwide attention. But at the same time, state owned economic departments are still lacking in vitality, which makes for an extremely sharp contrast with the vigorously developing nonstate owned economy. Thus, in the current period of deepening reform, the reform of state owned enterprises takes on even greater importance. This magazine's correspondence interviewed the economist, Director of the CASS Industrial Economic Institute Zhou Shulian [0719 0647 5571] concerning relevant topics of reform in state owned enterprises. [sentence omitted]

[Reporter] The state owned economy in China has always operated at a low level, with serious losses, at this is especially distinct at present. Although people realize that the basic way of resolving the problem is by deepening reform, as early as 1984, in its publication, "Decisions of the Central Government of the CPC Concerning Economic System Reform" the 3rd Plenum of the 12th Party Central Committee took enterprise reform as key links of economic reform. Up to now, reform of state owned departments have always been slower. As a specialist engaged in industrial economic research, what do you think are the major reasons?

[Zhou] I think that one important reason for the slow pace of reform of state-owned departments is on aspect of ideology. There is considerable obstruction when it comes to making clear the property rights of state-owned enterprises theoretically and ideologically. First of all, we have to resolve an ideological problem, and that is to clarify that ownership is just an economic medium. Some comrades thought that economic system reform could regulate the structure of state ownership and nonstate ownership, and the structure of public ownership and private ownership, but could not touch public ownership itself, and especially should not touch state ownership. This is actually making state ownership as the objective of socialism, and produced a myth, namely that acknowledging the property rights of state owned enterprises will alter the nature of

state ownership, and will destroy the economic foundations of socialism. The substance of these comrades' myth is state ownership under the traditional socialist economic system, and substantially, it is taking ownership as the ends and not the means.

[Reporter] Your formulation that "ownership is an economic medium" is quite new. When economic theoretical circles talked about economic media, they would regard planned regulation and market regulation as economic media, although some economists always stressed that the market economy is also a type of resource disposition, and were always in the position of being criticized. After Deng Xiaoping's speech on his visit to southern China, most people agreed with the idea that the market economy was a type of resource disposition, and even more, the report of the 14th Party Central Committee established that a socialist market economy was the goal of China's economic system reform. We can say that in the aspects of plan and market, planned economy and market economy, the problem of whether it is a medium has been resolved. But, there might be differences of opinion as to whether ownership is an economic medium. Excuse me, but why do you think ownership is an economic medium?

[Zhou] In point of fact, ownership and plan are both economic media. Taking a worldwide view, socialist state ownership appeared as the opposite of capitalist private ownership. Because capitalist private ownership blocked the development of productive forces, therefore Marxism advocated the establishment of public ownership in a socialist revolution to liberate productive forces and promote their development. In a situation where nations exist, public ownership within the whole scope of society is just state ownership. Thus, establishing state ownership was to promote development of productive forces, and until development of productive forces was the goal, state ownership was only an economic medium. In addition, the authors of Marxist classics thought that nations would wither away. When nations die out, state ownership will not exist. In summary, even if we look at the question only from the standpoint of changing ownership, Marxism didn't take state ownership as the target model either. There are absolutely no theoretical proofs for the myth of state ownership. Again, looking at the realities of China, state ownership appeared early on in the new democratic revolutionary period, although it was of a smaller scale and quantity. After entering the socialist revolutionary period, due to the vigorous development of the state ownership economy, with its remolding of capitalist industry and commerce, state ownership developed considerably. Even so, the nonstate ownership economy always existed to a great degree. During the period of economic recovery and the period of the First Five-Year Plan, China's economy developed rapidly and smoothly. It is true that this was related to the development of the state ownership economy, and also to development of the nonstate ownership economy, including nonpublic ownership economy. These all explained that the state ownership economy played its role as an economic medium, while the fundamental goal was development of productive forces. In the past, operating both "big" and "public," artificially expanded the scope of state ownership, which seriously affected and even destroyed the smooth development of the domestic economy. This also explained on the obverse

side that state ownership was taken as the goal, artificially expanding state ownership, it had to have a negative effect on production development. In addition, even under the traditional system, there were differences between the central government and localities in state-owned enterprises, and not a monolithic bloc; there was the phenomenon of counter-infiltration between state ownership and nonstate ownership in cooperative enterprises between the private and public sectors. This also explained that state ownership in China was always changing, and because of changes in its extension and intensity, it sometimes acted as a positive factor in the development of productive forces, and sometimes as a negative. Therefore, it is an economic medium.

Looking at the history of human development, the basic objective is developing productive forces, improving people's lives, and productive relationships, including ownership, function chiefly as economic media. So we often say that productive forces are a content of social production, and productive relationships are a societal form. The form and the medium are interlinked. Primitive societies carried out primitive commune ownership, slave societies carried out slave owner ownership, feudal societies carried out feudal lord ownership, capitalist societies carried out capitalist ownership, the basic reason for things being this way was that these ownership forms were the favorite economic media for development of productive forces at those times. As Marx said, "People will never abandon the things they already have, but that does not mean they will not abandon that form of society from which they obtained certain productive forces." Here, Marx was also taking productive relationships, including ownership, to be an economic medium.

[Reporter] It is a fact that Marx took the establishment and alteration of ownership and productive relationships as a matter that would not change in accordance with people's will. How does this relate to what you said about ownership being an economic medium?

[Zhou] Marx really stressed the objective necessity of ownership and productive relations, but this does not mean there are no options there. Looking at history, we see that people continually made choices in ownership and productive relationships. For example, during the development of capitalist agriculture, they experienced such things as labor rent, rent in kind, and money rent, etc., and the changes in these rents were the result of interested parties. What is termed unchanged by the will of the people means that whether the chosen ownership form has vitality, whether it will be longlived, is ultimately due not to the will of interested parties, but rather to whether it promotes the forces of production. The reason why the household responsibility system of linking remuneration to output has replaced the old people's commune system, becoming the common organizational form for agricultural production, is that it fits the requirements of development of productive forces, with strong vitality. Thus, it is not contradictory to say that ownership will not change through the people's will and that there are ownership options. Correspondingly, it is not contradictory to speak of development of ownership having its own objective necessity and of ownership being an economic medium.

[Reporter] Based on the foregoing discussion, if we can say that because ownership is an economic medium for developing productive forces, we shouldn't have myths about any ownership—regardless of whether public or private ownership—we shouldn't make it mysterious, and dogmatic. This is also to say that in the course of making positive choices of ownership, during ownership reform or system creation, everything is beneficial to the standard of developing productive forces. This is in harmony with some economists who advocate the productive forces standard, but, what sort of detailed suggestions do you have concerning current ownership relationships in China?

[Zhou] You are right. In China's present situation, it is an objective necessity that the ownership structure should be centered on public ownership, and principally state ownership. But at the same time, I must point out that under this precondition, all types of ownership relationships, the inner structure and realized forms of state and other systems of public ownership, should be regulated and reformed according to what is required to develop the forces of production. Because there are problems with both the ownership structure and the state ownership form, we must not only regulate the ownership structure, we must also reform state ownership as well. Included in this is clarifying the property rights of state owned enterprises, for only in this way will conditions be favorable to developing the productive forces.

[Reporter] It is the general opinion of most economists that there must be reform of state ownership and smoothing the property rights relationships of the State ownership economy smooth. This was expressed in the report of the 14th Party Central Committee and in the "Government Work Report" at the 1st Plenum of the 8th People's Congress, and both stressed the need to smooth property relationships as a part of carrying out reform of State owned enterprises. In China, because people differ in their understanding of property rights and property rights relationships, they also have differing views as how these relationships could be smoothed. Excuse me, but do you view the formulation of making property rights relationships as smooth?

[Zhou] Clarifying property rights relationships of state-owned enterprises clear requires an admission that state-owned enterprises have ownership rights to the property they operate and manage. Of course, the state has ownership rights to the property of the state-owned enterprises, while the state-owned enterprises should have ownership rights to property they themselves operate. The former can be called the final ownership right, the latter can be called the legal person ownership right. This kind of division between the final ownership right and the legal person ownership right, established the basis of normal operation in modern enterprises, and was enacted most typically in the joint stock corporation system in major market economic countries. In the corporation system, there is recognition of both the legal person corporation's ownership, and of the shareholders' final ownership rights. Speaking of reform of state-owned enterprises, this will alter state ownership's performing form, by allowing the state to become a shareholder. The state's final ownership rights and the enterprises' legal person ownership require and are conditional upon each other. In this way, the state-owned

enterprises will possibly become real commodity producers and operators, and the state ownership system will be able to find a suitable performing form for itself.

The property rights system is the basis of the enterprise system. With their property rights clarified, enterprises will have independent property and property ownership rights, and will be able to operate according to their own will. It means that they will be able to use their property to take profit and loss responsibility on that property, personally responsible for losses and profits. Enterprises will be able to have an independent main body of profits, be self restricting, self developing. They also will be able to achieve the separation between administration and enterprises, and avoid unnecessary interference from administrative departments. As legal persons, it is absolutely justified for enterprises to have their own property ownership; why it is so difficult to admit this in China? One important reason lies in the traditional state ownership system: in this, enterprises really did not have property rights, so existence determined consciousness, and after a long time, it became the normal situation instead, while denying legal person ownership to enterprises became the unalterable principle. A deeper reason might be that in the past in socialist countries, only the state's property ownership was sacred and inviolate, while the private economy needed remolding and the collective economy needed to change toward the state ownership economy. This habit of thinking is still not completely changed even today. In enterprise reform, we used to take only an appropriate separation between ownership rights and operational rights as a theoretical proof, with stress on changing the operations form under the precondition of affirming the traditional state ownership performance form. This did not touch the traditional property rights system, so it prevented enterprises from having their own independent property, and made it difficult for them to be responsible for losses and profits by themselves, made it difficult to completely separate administration and enterprises, and even made it difficult to implement the self operation rights which were already put forth in documents. At present, losses of state-owned capital is quite widespread and very serious, and the basic reason for this is the lack of clarification of enterprises' property rights, a lack of admission that enterprises have such rights. We must pay attention to this lesson in future reform of the state-owned enterprise system.

[Reporter] When China established the market economy as an objective of system reform, there was an earnest hope that State ownership reform would be deepened. Now, the question which was widely asked both in China and abroad is whether State ownership is compatible with market economics? Please talk about your own ideas on this question.

[Zhou] It would be wrong to simply answer yes or no. I believe that state ownership and market economics are compatible, but this compatibility has preconditions, it certainly has preconditions.

In the future society envisioned by such classic authors as Marx and Engels, society will own all means of production, and this is not compatible with a market economy. Engels pointed out in "Anti-Duling," that "Once society owns the



means of production, commodity production will be eliminated." When only a single form of ownership exists in society (for example, a unitary state ownership system), the whole of society becomes an administrative institution, becomes a factory, commodity production will really be eliminated, and there is no market economy even to speak of. Looking at the actual process of socialism, under the traditional economic system, although there is collective ownership in addition to public (state) ownership, as the state-owned enterprises implement a business accounting system in the economy, some of them do have some degree of independence. But because the state-owned enterprises implemented unified purchasing and sales, unified income and cost, there was no market system. In addition, enterprises were not the main body of the market, and the market operation system worked very little in the allocation of resources, as society's resources were allocated by planning organs or the government. This type of planned economy was hardly compatible with a market economy. Since the implementation of reform, an important change has taken place in the ownership structure and economic system of China. "The Central Party's Decisions Concerning Economic System Reform" at the 3d Plenum of the 12th Party Central Committee stated that the socialist economy was a planned commodity economy, state owned enterprises should become relatively independent economic entities, should become socialist commodity producers and operators responsible for their own operations, profits and losses. This was a theoretical breakthrough, moving China's economic system reform into a new phase. But, has this made state ownership compatible with the market economy? No, not yet. Because the market economy is one in which the market operations system plays a fundamental role in the allocation of resources, and although "The Decision" stressed the development of a commodity economy, it also stated the "under the socialist conditions of China, labor forces are not commodities, nor are all the state owned enterprises and resources such as land, mines, banks railways." Since this is the case, how can a market operations system play a fundamental role in resources allocation? In addition, according to the requirements of "The Decision," enterprises as commodity producers and operators are only relatively independent, and relatively independent means incompletely independent, so they cannot be totally self operating, still less form a competitive market system. The 14th Party Central Committee's report affirmed the socialist market economy as the purpose of economic system reform, but didn't set out a clear plan for enterprise reform.

So, how to make state ownership and the market economy compatible? Principally, it can be summed up as breaking unitary ownership in the whole of society, making many of society's enterprises a truly independent, main competitive body in the market, one which owns its own independent property and makes the market operations system play a basic role in resources allocation. The former Soviet Union and some countries of East Europe have implemented a market economy by privatization, and so far, they have been unsuccessful. Even if they do succeed, because state ownership is replaced by private ownership, it cannot resolve the compatibility problem between socialist state ownership and the market economy, either theoretically or practically. China is chiefly taking steps in two areas: on the one hand it is implementing multiple

economic composition which is both co-existing and mutually interlocking; on the other hand it is reforming the state ownership economy, turning state owned enterprises into independent commodity producers. Starting with the implementation of reform, and especially since the 3rd Plenum of the 12th Party Central Committee, we enthusiastically worked to develop a commodity economy, and indeed had begun the change to a market economy. The 14th Party Central Committee made it very clear that the goal of the economic system is to establish a socialist market economic system, and took the decisive step to implement and develop a socialist market economy practically and theoretically. All these explain that China is exploring ways to combine socialist state ownership with the market economy, and make them compatible.

[Reporter] China has explored numerous forms in implementing state owned enterprise reform, with most state owned enterprises implementing a contract operations responsibility system. The government is hurrying to implement "Rules for Transforming Operational Systems of Public Ownership Industrial Enterprises," with most economists advocating the implementation of a joint stock corporation system. We also read in your book that you advocate implementing a joint stock corporation system. What is your thinking on how to implement current reform in middle and large scale enterprises?

[Zhou] First of all, the current contractual operations system is not an appropriate form. It basically has not been eliminated, indeed it is impossible to eliminate enterprises' subordinate relationship to administration, so it is difficult to separate administration and enterprises, and truly take responsibility for one's own profits and losses. What is more important is that the contractual operations system hasn't resolved the problem of enterprises' property rights; just as with state owned enterprises under the traditional system, it does not clarify property rights. For the "Rules," compared with relevant laws, regulations, and decisions, there was much new content. However, the purpose of transforming the operations system for enterprises is to convert enterprises into commodity producers and operators which are self operated, responsible for their own losses and profits. Analyses of this point shows that the "Rules" have a great many shortcomings: first, they do not establish that enterprises' status as legal persons do not give them legal person ownership, and this forces enterprises to operate without a property base; second, the "Rules" did not resolve the problem of distinguishing the separate responsibilities of administration and enterprises. As an example, Rule 42, concerning the government's responsibility does indeed give part of enterprises' decision-making powers to the government. In addition, there are some unnecessarily restrictive rules concerning enterprises' self operation rights: for example, on self policy decisions concerning investments, treatment of capital, exports and imports, etc., enterprises usually have to get the approval of the relevant government department. The Rules are either too restrictive, or are too general or flexible, which make them especially difficult to implement. Looking at the reform history and current situation of China's enterprises, in the transformation of the enterprise operational system, the most important and difficult



thing is to separate administration and enterprises and make the question of enterprises' property rights clear and definite.

The joint stock corporation system is a feasible form for reorganization of the state-owned enterprise system. The joint stock corporations have a position independent of the investor, can give the enterprise legal person ownership and become a true civil entity. Enterprise shareholders take limited responsibility for enterprise creditors' rights, taking the responsibility by limiting the amount of investment; the board of directors manages the enterprise in the trust of the shareholders, taking the overall profits of the shareholders' as the purpose of their operations. Therefore, this can give legal person ownership to state owned enterprises under the precondition that the state has shareholding rights, becoming property owners, and establishing a base for constructing modern enterprises compatible with the socialist market economy. Of course, there can also be other forms of enterprise organization. In summary, reform of state-owned enterprises demands that enterprise property rights be clarified, that administration and enterprises be separated, and independent legal person enterprises be established.

It is only through the implementation of these changes will state-owned enterprises be compatible with the socialist market economy, matching the needs of establishing a new socialist market economic system. Favorable to the liberation and development of productive forces. If these changes do not take place, there will be no future for socialist state ownership, and it will not exist for long.

#### 'Experts' Attended Symposium To Discuss Inflation

94CE0087.1 Beijing JINRONG SHIBAO in Chinese  
4 Oct 93 p 3

[Report by Hua Jun (5478 0193): "Presenting Several Viewpoints on Currency Inflation," printed in column "The Field of Theory," of which Tang Xiong (0781 7160) is listed as responsible editor]

[Text] On 3 August 1993, the Research Institute of the State Information Center and the Financial Research Institute at the Head Office of the People's Bank of China jointly held a symposium on "The Problem of Currency Inflation," which was attended by 30 scholar-specialists. They engaged in a discussion, exchange of opinions, and presenting arguments as to the causes and mechanism of China's currency inflation, and on ways to control it, also on the related questions of how to reform China's financial and investment systems.

#### 1. Analysis of the Causes of the Ongoing Currency Inflation

On this question, the following four different viewpoints were presented at the symposium:

A) The thesis of periodicity as cause. Comrades who held this view believe that among the manifold causes for the present currency inflation, the principal one is periodicity. Close to any peak in economic growth, there is apt to appear currency inflation. Although a variety of factors may influence the occurrence sooner or later of a peak of economic growth, it is definitely bound to occur. The

present inflationary phase is precisely a manifestation of China's economy approaching a new peak.

B) The thesis of the system as cause. Currency inflation is closely, inseparably, and inherently linked with China's economic system. This view was accepted by everyone. There was at the symposium a thorough discussion of the relation between the financial and investment systems and inflation. Some comrades were, on the other hand, of the opinion that it is an exaggeration to blame the present inflation on the chaotic financial situation, and to say that the "rotten state of currency affairs" is the major cause of inflation. There is indeed a need to straighten out the financial order, but that will not be sufficient to gain control over inflation.

C) The thesis of the stage of development as cause. One comrade pointed out that according to a statistical survey by the World Bank, inflation was comparatively low in low-income countries, that it was on the average comparatively high in lower-level countries with moderate rates of incomes, and that it was on the average highest in high-level countries with moderate incomes. In countries with high incomes inflation was on the average also fairly low. China's developmental stage has just passed on from that of a low-income country and is entering the stage of a low-level moderate-income country. In this its present economic development, China is facing the pressure of a comparatively high currency inflation.

D) The thesis of government policy as cause. In the opinion of some comrades, the present inflation was mainly caused by errors in the macroeconomic policy of the government. Comrades who held this opinion did not deny the effects of other factors, such as that the system is after all the objective basis for erroneous government policy, but they believe that erroneous government policy is the most conspicuous cause, and that there is a need to strengthen macro-regulation and control. Other comrades believed that within the area of government policy, it is the rapid inflation of investments which is here the key factor. The primary impetus for the present currency inflation comes from investments, and particularly from investments of state enterprises.

Essentially, not one of the comrades blamed only one cause. Everybody was agreed that it is a variety of causes that are to blame for the currency inflation. The various arguments only differed in designating which of the various causes to be the primary one. Only by gaining firm control over the main contradiction can the right remedy be found and can the best remedial effect be achieved.

#### 2. Analysis of the Mechanism of Currency Inflation

In the analysis of the system and of the causes of inflation, China's economists have attained quite some achievements, but, on the other hand, there have been only limited studies analyzing the mechanism in the operational processes of currency inflation. A very gratifying phenomenon at the present symposium was the fact that several comrades presented valuable viewpoints in the analysis of the operational mechanism of currency inflation.

A) Nonlinear and unpredictable character. Currency inflation is a nonlinear action, and is also inherently affected by an element of unpredictability. At the present stage, the

nonlinear character of currency inflation clearly manifests itself in two respects: One is that the rate of currency increase and the rate of economic growth will correlate to a very high currency inflation. The other is the fact that under the influence of a trend of high inflation expectation, cost-push and demand increases will combine to bring about an acceleration of currency inflation. Within a certain period of time, it is quite possible that a situation may develop where the rate of currency increases and the rate of economic growth will decline, while currency inflation will still remain at a high level. An important element which is responsible for the nonlinear and unpredictable character of currency inflation is this "stickiness" of inflation expectation (meaning that the expectation of currency inflation will "remain stuck" at either a fairly high or a fairly low level).

B) The protracted effect of currency inflation. This year's currency inflation constitutes a strong impetus for next year's currency inflation. An important reason for this is that the commodity price index gives the average annual value and is not a monthly linked index, and in this way the currency inflation of this year will be reflected in next year's commodity price index. This is a kind of protracted effect in the mechanism of currency inflation. Looking at the annual average indices, control of the currency inflation cannot be of an immediate effect, and it must, therefore, not be expected that inflation will go down next year.

C) The effects of currency inflation on distribution. Currency inflation affects people of different income levels differently. If the incomes of employees and workers in the large- and medium-sized cities rise by 40 percent, and commodity prices go up 20 percent, the increase of actual incomes is still 20 percent. However, in the rural areas incomes rose by 5 percent and commodity prices rose by 10 percent, resulting in a decline of incomes by 5 percent. In a study of China's inflation we must not forget the 800 million peasants, and we must speak on behalf of the peasants.

D) The developmental tendency of currency inflation. In the opinion of some comrades the present implementation of various measures to strengthen macro-regulation and control will also have those measures that were taken to stem inflation prove effective in the second half of this year, but the retail price index may still go up, while the price index for means of production may rapidly decline. The average decline in the 1993 GNP will not be by more than two digits, at least it will be the same as in 1988, but quite possible above that of 1988. A number of comrades were of the opinion that the dynamics of macro-regulation and control must not be increased, but also not be relaxed, so as to avoid as far as possible a large economic decline, as in 1989. Other comrades believed that in the 12 percent increase in the annual commodity price index, 5 percentage points are due to price adjustments, and that the situation is not particularly threatening. No nationwide price increases have occurred, the supply and demand concerning basic consumer goods had been to 90 percent in balance, so that the economy may safely continue to maintain its high-speed growth.

E) Currency inflation as related to government action. We must include government action in our economic research,

must regard the many errors in government policy as an objective act, and must analyze the objective mechanism of these errors. This is the only way that will allow us to analyze more thoroughly the relation between inflationary currency operations and the system, and to deepen our understanding of the internal mechanism. We must presently pay particular attention to the way investment activities are causing a kind of redistribution of incomes, must study the relation between the fluctuations in the rate of GNP growth (deducting the trend factor) and fluctuations in commodity prices. Some comrades believed that a system of macro-regulation and control at the center has not yet been established, and that it is still planned economy at the local level. At the local level, the concept has grown that whoever does not submit to central authority's macro-regulation and control will be able to advance more rapidly. It is therefore most urgently necessary now that at the same time that we compress the volume of investments, we also resolutely remedy what may be called the "chaotic situation."

D) Currency inflation as related to the investment system. The investment system has been the subject of reform for a certain number of years, but still has not changed essentially. The problem of introducing the responsibility system for investments has not been resolved, and investment reform has stopped at the stage of building construction, but has never reached the stage of policy decisions. Policy decisions are made by the government, but errors in policy decisions are the responsibility of the collective, and almost impossible to trace back to any individual. It is impossible to accomplish a reform of the investment responsibility system within the reform of the organizational system of investments, which would have to rely on a restructuring of the proprietary relations of enterprises, in particular, state enterprises. If it is not possible at present to resolve the problem of investment inflation, it is indeed investment inflation that will be responsible for the currency inflation.

### 3. Suggested Government Policy To Remedy Currency Inflation

Currency inflation is a comprehensive problem, and the remedy for its resolution must be a comprehensive one. This is well acknowledged by everyone. An important aspect of the comprehensive remedy is comprehensive regulation and control. However, presently, fiscal regulation and control is weak and powerless. Financial regulation and control is seriously lagging behind events, the sphere of planned regulation and control has shrunk, and comprehensive regulation and control is beset with many contradictions. It is therefore necessary to build up a system of macro-regulation and control. This is an elementary precondition for any future policy to remedy currency inflation.

Suggestions of specific policies were discussed at the symposium and the following views were developed:

A) Policies must initiate a process in stages, a gradual readjustment. As the operational process of currency inflation still has a very strong element of unpredictability, and as our knowledge of the unlinear character of currency inflation is also very limited, we must presently avoid a policy that strives to achieve the objective in a one-step

operation along the lines of linear thinking. Judging by the previous experiences in checking inflation, a policy prescribing a one-step operation to achieve the objective is fraught with great danger. Remedial action to stop currency inflation may rather adopt a two-stage strategy. This year is to be the first stage, when efforts shall be made to eliminate the accelerating tendency in the currency inflation and to achieve a stabilization of currency inflation. Next year is then to be the second stage, when efforts are to be made to bring about a distinct decline in currency inflation. According to the strategic objective of these two stages, we must come up with a step-by-step policy and must step-by-step adjust our policy, to ensure economic stability and to avoid a large-scale economic landslide.

B) The dynamics of macro-regulation and control must be appropriate; enterprises, such as the real estate enterprises, must be allowed a way out of their dilemma.

C) The regulatory and control methods must be changed. Presently, there has been no change in the mechanism of state enterprises, no change in the methods of their business conduct, also no change in their dominating position. This makes it necessary to adopt some of the traditional measures of direct administrative action. However, attention must be paid to the effective handling of the relation between regulatory and control measures and the reform, to an acceleration of the necessary changes in the regulatory and control methods, and to the build-up of indirect regulatory and control methods. For this purpose, we must develop financial markets, build up a system of open business markets, develop privately run financial organizations, and develop a market for interbank short-term loans. The gradual decontrol of interest rates is a key problem in the indirect regulation and control. Only by having the commercial banks appropriately split off the policy-oriented loans can these banks become genuine commercial banks. The Head Office of the People's Bank of China must be converted into a true central bank, which will have authority to determine currency supply and authority to influence the interest rate.

## FINANCE, BANKING

### Suggestions for Domestic B Share Market

94CF0030A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 8, 11 Aug 93 pp 18-20, 6

[Article by Fu Shifeng (4569 0670 1496), president of the Nanfang Securities Company, and responsible editor Xie Wei (6200 5898): "Suggestions For Developing a Domestic Stock Market for B Shares"]

[Text] Since December 1991 Shanghai and Shenzhen have issued block after block of special shares denominated in renminbi [RMB] (called B shares for short) to overseas investors, raising \$500 million and HK\$730 million, respectively. Thus a new avenue of attracting foreign capital has been opened up and the internationalization of China's securities market has been launched. Both theoretically and practically this development has enormous tangible and historical significance.

To increase the volume of B shares issued, raise the volume of trading, and diversify the channels of raising

foreign capital to aid national economic construction, we must improve the issue and circulation of B shares and broaden their market to within China itself so that residents inside the nation holding foreign exchange have the opportunity to purchase such stock. The idea is to rely on investors overseas as the principal purchasers of B shares, but supplement them with residents within China. When we combine the two, it is like having two wheels turning together. The result would be a unified B shares market that incorporates domestic operations with overseas transactions. The following is a discussion of some of the issues pertaining to the issue and circulation of B shares in China.

### 1. Necessity of Issuing B Shares Inside China

Opening up the B shares market and bolstering the issue and circulation of B stock within China will benefit the nation and the people in both the short run and the long run. The need for such a move is essentially three-fold.

1) Raise foreign exchange funds and widen the channels of fund-raising.

Widening the channels of fund-raising and extensively attracting and utilizing foreign capital is a strategic measure in China's drive to further reform and opening up and accelerate economic development in the 1990's. As an effective means of raising foreign capital, the stock market is bound to play an increasingly important role. In practical terms, within just a little over 12 years, China has absorbed almost \$600 million in foreign exchange funds through the stock market. Not only have the channels of tapping foreign capital been widened, but China has also gained in international influence and acquired a wealth of experience. This will spur the development of the securities market in China, enhance the enterprises' adaptation and development capabilities, improve the domestic investment climate, and boost foreign exchange incomes. Thus the issue and circulation of B shares within China to absorb idle foreign exchange resources in society will certainly become a useful supplement to the array of methods by which China raises and utilizes foreign exchange funds as well as an important part of improving and developing the B shares market in China.

2) Energize the circulation of securities and revitalize enterprises.

Judging from the internal relations and systematic functions of the securities market, the issue of securities is a prerequisite for the circulation of securities. Without a securities issue market of a substantial scale, there can be no active circulation market. If there is no active circulation market, the securities market will be unable to fulfill a string of economic functions effectively, such as raising funds, increasing enterprises' profitability and standard of management, adjusting the mix of property rights, optimizing the industrial structure, and promoting economic growth. By and large China's B shares market is quite healthy and active. But it is not perfect. Most notably, there is excessive contrast between the circulation market and issue market. The market is sluggish and trading is slow. To turn this situation around, one important solution is to allow B shares to be issued and circulate within China and attract foreign exchange holding residents inside the nation to participate in the B shares stock market. That way the scale of the market will be expanded



and securities circulation energized. The formation and development of a B shares market within China, and ultimately the integration of the domestic and offshore markets will certainly engender corresponding changes in a host of other mechanisms, including public finance, planning, investment, banking, and enterprises. When they come under heightened external pressure and are driven by stronger internal forces, enterprises that issue B shares, in particular, must take greater pains to allocate resources properly and improve their economic performance. By continuously enhancing enterprise dynamism and vitality, we would only further expedite the development of China's securities market.

3) Preserve the financial order, correctly guide household investment, and satisfy the desire of the people to invest.

The stable and healthy development of the securities market has an impact on the financial order in the nation, the personal interests of the masses, and social stability. Over the past few years, as economic structural reform deepened without interruption and the country became increasingly open to the outside world, China's economy has been developing rapidly, steadily, and in a balanced fashion and the foreign exchange holdings of residents have shot up. Meanwhile, however, speculation in foreign exchange has also been creeping up quietly. In collusion with businessmen overseas, a number of underground financial institutions in certain coastal areas buy and sell foreign exchange futures illegally. Fraudulent schemes to cheat people out of their money and properties occur frequently. One reason for that is precisely the lack of diversity in investment channels, so that there are not enough investment channels to meet the investment needs of foreign-exchange-holding households within China. Allowing those residents to participate directly in the B shares market, therefore, not only will give the public an additional investment channel, but will also help check illegal activities, stabilize the financial order, and expedite the healthy development of the securities market.

## 2. The Feasibility of Issuing B Shares Within China

By and large conditions are now ripe for the issue of B shares within China. We should start making preparations for implementing the idea. There are three aspects to our readiness:

A) Foreign exchange reserves in the hands of private citizens in China are considerable and the development potential is formidable.

Take Hong Kong dollar reserves for instance. Because of the multiplying economic and trade ties between Hong Kong and the interior, the size of Hong Kong currency in circulation in southern China has been ballooning. According to unofficial statistics, the amount of Hong Kong currency that has found its way into southern China makes up 25 to 30 percent of all bills and coins issued by Hong Kong, specifically, between HK\$14 billion and HK\$17 billion. According to Bank of China data, as of late 1992 the foreign exchange deposits of all domestic households amounted to \$8 billion or so. At present, however, interest rates on foreign exchange deposits in Chinese banks are extremely low. As a result, there has been a decline in personal foreign exchange savings in coastal areas more recently. Moreover, there are few ways in

which foreign exchange can be spent in China. For all these reasons, opening up the B shares market to foreign exchange holding domestic residents would enable a large volume of idle social foreign exchange to participate in investment, fueling the effective circulation of foreign exchange reserves within China.

B) Domestic securities organizations have gained experience in the issue and circulation of B shares and have the necessary qualified personnel. They also have been studying operations on the international securities market.

As far as the circulation market is concerned, all organizations entrusted with the marketing of B shares are well-known dealers that have been carefully selected after fierce competition. In Shenzhen, for example, there are 14 such dealers including some that are funded by British, French, American, or Chinese capital. Cooperation between domestic and foreign dealers has ensured the smooth issue of B shares and also been a good learning experience for domestic dealers.

Turning to the circulation market, in Shanghai the buying and selling of B shares goes through dealers inside China directly. In Shenzhen, on the other hand, such trading takes place through contacts between overseas dealers and their domestic counterparts. Alternatively, an overseas investor may ask a local dealer to buy and sell on his behalf. Whatever the method of trading, direct or indirect, domestic dealers have acquired the most basic trading experience and a close relationship has developed between domestic and foreign dealers and between domestic dealers and B shares clearing banks. Cooperation has also intensified between domestic and foreign accounting firms and law firms. The operations of the B shares market are rapidly coinciding with international practices.

In terms of organizational build-up, the development of securities firms in China has been accelerating, with 71 securities companies currently in operation. With the approval of the People's Bank of China, three large nationwide securities companies, namely Nanfang, Guotai, and Huaxia, opened for business in 1992 and are being extensively watched by the domestic and overseas securities industries, banking circles, and enterprises. Business has been growing satisfactorily on both the domestic and the foreign fronts. Nanfang Securities Co. Ltd is in the midst of negotiations to set up a joint venture securities company. The establishment of the three securities companies not only will speed up significantly the formation of a unified securities market but will also open up a brave new world for the internationalization of China's securities market.

All of that will provide a favorable external environment, market foundation, and operational experience for the issue and circulation of B shares within China.

C) A basis has been laid for law-making and rule-making pertaining to the B shares market.

Shanghai has promulgated a string of documents including the "Shanghai Special RMB Shares Management Methods," "Supplementary Regulations for the Operations of the Shanghai Stock Exchange and Stock Market (Special RMB Shares)," and "Provisional Management Regulations for B Shares On the Shanghai Stock Exchange."

Shenzhen also has promulgated in close succession the "Shenzhen Provisional Management Regulations for Special RMB Shares," "Shenzhen Provisional Regulations for the Registration of Special RMB Shares," and "Trading and Clearing Regulations for B Shares on the Shenzhen Stock Exchange." These rules and regulations fully reflect the regulatory requirements of the B shares market and will satisfy the basic regulatory needs of the issue and circulation of B shares inside China. Of course, there is still room for improvement here.

### 3. Ideas for Perfecting and Developing China's B Share Market

The issue and circulation of B shares within China can follow either one of two models. The first model is a closed model featuring an independent B shares market inside China. The other model is an open model featuring an integrated B shares market incorporating both domestic and overseas operations. In view of the progress being made in economic and banking structural reforms at present, particularly in the shareholding system, as well as the problems relating to B shares at the moment, I believe we should be enthusiastic yet cautious as we set about issuing B shares, mindful of the importance and feasibility of issuing B shares but also aware of the fact that it would develop in stages level after level. I propose therefore an overall strategy of phasing in its implementation stage by stage, level by level. Adopt the closed mode of operations first, lay a solid foundation, gain experience, and then move toward the open model.

#### A.) An Outline of the Operations of a Closed B Shares Market

**Issue market.** 1) Select a batch of primarily export-oriented enterprises that have been experimenting with the shareholding system in economically developed areas or relatively developed areas to issue B shares. The purchasers of these shares are to be limited to foreign exchange-holding residents in China. Enterprises that issue B shares may issue A shares at the same time but cannot for the time being issue B shares to investors overseas. 2) The shares should be issued at or above face value. Typically they should be valued at the average price level of B shares issued overseas. The prices at which shares are issued should be determined in light of the assets/liabilities position of each enterprise as well as its margin of profit. Generally speaking, share prices should differ from company to company; don't strive for uniformity. 3) The methods of issue should be made known to members of the public. Local and non-local residents should be given an equal right to purchase B shares. Dealers, including wholesale, retail, and exclusive dealers, must be broadly representative if we are to live up to the "three gong" (gongzheng, gongping, and gongkai) principle, namely "just, fair, and open," and make the whole process more open. There should be no restrictions on the kind of currency that can be used to pay for B shares; any one of the freely convertible currencies such as the dollar, Hong Kong dollar, Japanese yen, and German mark will do. On the other hand, in order to prevent confusion, particularly to avoid the losses a company which issues shares to raise capital may suffer as a result of changes in exchange rates,

we should establish a central conversion currency and its unit, preferably the American dollar. All non-dollar foreign currencies should be converted into American dollars based on the prevailing exchange rates on the world money market. The same rule applies when shares are traded. The risk and resultant losses caused by fluctuations in exchange rates in the period between issue and circulation should be borne by the investor himself.

**Circulation market.** 1) All B shares shall be traded on the market, preferably the two stock exchanges in Shanghai and Shenzhen, not on the black market outside the stock market. Consideration may also be given to opening a B shares exchange in Beijing or Tianjin (which may evolve into a unified B shares exchange incorporating domestic with overseas operations and a comprehensive securities exchange over time), forming a B shares domestic issue and circulation system where the north is on a par with the south. 3) Unify the methods of price quotation, preferably with the American dollar as the currency of price quotation. Ditto for clearing and trading. 4) In view of the level of exchange holdings in the hands of Chinese households and the efficiency of market circulation, shares should be traded in blocks of 50 or 100. In between quantities can be traded as fractional shares. 5) The trading of B shares as well as account clearing and payment may follow existing procedures. In addition, a B shares clearing company should be set up as soon as possible as a joint venture between the stock exchange, registration company, and clearing banks, with the additional participation of interested dealers. The objective is to shorten clearing time and improve trading efficiency. 5) The criteria for calculating trading fees should be the same as those for A shares. 6) Create a separate independent composite index to reflect the level of trading in B shares. To avoid unnecessary conceptual confusion, we should give it a separate name.

**Market regulation and control.** Establish a market regulatory and control mechanism that combines planning with the market, with indirect regulation and control playing a dominant role. 1) Develop the market mechanism. The principal objective is to unify the supply-demand mechanism, competition mechanism, and trading mechanism between the stock markets so that macro regulation and control would have a balanced effect between stock markets. 2) Develop indirect regulation and control methods, notably a stabilizing fund. It should be funded in the following ways: Setting aside a portion of the stock issue fee (to be considered when shares are issued above the face value), setting aside a portion of the stock trading tax, and putting into the fund some of the nation's foreign exchange funds. The size of the fund should be determined by the scale of the market, but should be large enough to have a strong stabilizing effect or guiding effect when stock prices fluctuate sharply. 3) Develop flexible planned regulation methods. The emphasis of guidance planning is on the short-term development of the securities market. Adjust such planning flexibly as reality requires and make it a full market. 4) As the regulator and controller of the securities market, the government should rely mainly on policies, laws, and regulations to establish its regulatory and control authority and improve its regulatory and control effectiveness. 5) Supervise the market strictly to prevent fraud.

### B.) An Outline of the Operations of an Open B Shares Market

After the domestic B shares market satisfies the basic requirements for moving from a closed model to an open model, the issue and circulation of B shares at home and abroad may be integrated, forming a unified single market. To ensure the stable operations and healthy development of the B shares market after this transformation, we must reform the B shares market wherever necessary, based on the requirements of international practices and the reality in China. Pay special attention to the following:

**Issue market.** 1) Enterprises planning to issue additional B shares or issue B shares for the first time should target both domestic and foreign investors and specialized syndicates and determine the total number of shares to be issued and the ratio between domestic shares and overseas shares. In principle, more shares should be issued overseas than those invested locally. 2) Methods of issue should be made known to in China. Under the supervision and oversight of the body in charge of securities, domestic and overseas wholesale dealers should select an effective way of putting the shares on sale in an open market. 3) The scope and scale of the B shares market should be broadened to increase the influence and visibility of China's socialist market around the world.

**Circulation market.** 1) Residents at home and abroad as well as specialized syndicates should be able to freely buy and sell B shares previously issued domestically or overseas and B shares currently put on the market. They may ask a domestic or overseas dealer to buy and sell on their behalf. In the past there was a hard and fast rule requiring direct or indirect agency. That rule must now be abolished to put teeth in the principle of investor voluntary participation. 2) A one-time trading unit should preferably range between 100 and 500 shares, out of consideration for the purchasing power of the ordinary domestic or overseas investor. 3) Any locality where a stock exchange is located should set up its own central clearing company and reform existing clearing companies, incorporating offshore dealers into them. 4) Unify the standards for calculating and collecting trading fees. Develop a unified B shares market composite index. 5) Make a major effort to improve means and methods of communication.

**Market regulation and control.** 1) Perfect a regulatory and control mechanism for the B shares market, which should be dominated by market regulation. The macro intents of the government should be realized primarily through laws and regulations. Take pains to utilize the stabilizing fund to good effect, using it in conjunction with other instruments, including the window of guidance. The scale of the stabilizing fund should be expanded. Funding resources should include overseas dealers. 2) Step up planned guidance and accelerate the creation of an information system. 3) Intensify self-management by the securities industry as well as social supervision. By accelerating the establishment of self-management organs in the securities industry and institutional development, the industry should do a good job in self-management. By utilizing the securities management bodies, accounting firms and auditing agencies, along with social supervision, we should organically integrate macro-management by the state with self-management by the securities industry. 4) Improve the

securities market property evaluation and consulting system and their functions. Steer investment into the right industries and guide the investment structure to achieve higher investment returns.

It should be pointed out that the securities industry is intimately related to the national economy both in terms of policy and institutionally. So whether the securities market is in a closed mode or open mode, we must be careful to coordinate the development of the B shares market with reforms in related areas. In the present situation, related reforms include the following: expanding the experiment with the shareholding system to make the system the norm rather than the exception sooner; speeding up the reform of the financial and foreign exchange systems; shifting the management of foreign exchange circulation from quantitative management to spot exchange management; improving and intensifying the macro regulatory and control system for the securities market; improving the tools of regulation and control and coordinating the macro with the micro; speeding up law-making and promulgating and implementing nation-wide laws and regulations on the securities market and specialized laws and regulations specific to the B shares market, thus forming a coherent and well-organized body of laws with built-in checks and balances. Furthermore, we need to expedite the development of the entire securities industry intellectually, organizationally and in the way of doing things; disseminate knowledge relating to securities extensively; and enhance the public's investment consciousness and risk awareness. In emphasizing phasing in the maturation of the B shares market as a transitional measure, we are not suggesting that the development of a B shares market or the integration of the securities market as a whole should slow down. Rather, the objective is to lay a solid foundation for the sustained, stable, and balanced development of China's post-unification B shares market.

### Foreign Trade-Related Fiscal System Reform

93CE0897A Beijing GUOJI MAOYI [INTERTRADE]  
in Chinese No 8, 15 Aug 93 pp 22-25]

[Article by Qiang Yongchang (1730 3057 2490) and Tao Yong (7118 0516), World Economy Department, Fudan University, and Fiscal Department, Shanghai Finance and Economics University: "Fourth Article in a Series on Foreign Trade Macroeconomic Control System Reform—Trade-Related Fiscal System Reform"]

[Text] Fiscal policy is both an important means whereby government regulates domestic macroeconomic development and an important integral part of the foreign trade macroeconomic control system. How government applies expenditures and revenues techniques not only affects the production of domestic and foreign trade-related enterprises, but also directly affects the actions of foreign trade enterprises. Therefore perfection and regularization of China's foreign-trade related fiscal system is a prerequisite for the bringing China's foreign trade system in line with the international standard.

Because of the abiding influence of the planned economy in which public finance played a great role and banks a small role, government's function in the macrocontrol of foreign trade is intensified. Fiscal measures of an administrative character have become the main lever in the macrocontrol of foreign trade. They directly affect the



activities of the foreign trade sector, thereby leading to macrocontrol of foreign trade by administrative fiat, and low efficiency in the operation of the microeconomy. Now that China's goal of a restoration of its GATT status is about to be realized and market economy reform goals have been further clarified, reform of the existing fiscal control system, standardization of foreign trade fiscal support measures, and improving results from their macroeconomic regulation have also become priority tasks in reform of the foreign trade macrocontrol system.

### 1. Import Subsidies

Import subsidies are the differential price subsidies that the governments of importing nations provide so that importers engaged in the import trade can avoid losses resulting from international market prices of imports being higher than domestic market prices. These subsidies enable the government of an importing nation to spend a sum of money on the import trade, this expenditure having positive significance in regulating the make-up and scale of the nation's imports. However, the economic consequences of such subsidies and whether such subsidies make good sense for a nation's economic development must be analyzed in both short range and long range terms.

A.) In the short term, government subsidization of the importation of certain specific products has as its main goal the balancing of the supply and demand for those products within the home country. However, in order for an importing country to import a certain amount of certain goods, it must export other goods of a corresponding value. By exchanging exports for imports, the domestic supply of the goods that the country exports is reduced while the domestic supply of the goods that the country imports is increased. The total supply structure changes, thereby increasing the extent to which the country's supply and demand coincide in the short term. This improvement of the balance between supply and demand is achieved through the subsidization of imports. However, the elimination of subsidies, changing to a revamping of the domestic price system and revamping of the industrial structure to improve the relationship between supply and demand cannot be easily achieved in a single action. This is because such a revamping will affect vested interests of many kinds, and will cause imbalance between supply and demand for a period, as well as troubles from a series of incongruities that it occasions. Furthermore, solving these problems to bring about a readjustment of the supply and demand structure entails paying a large amount of money for readjustment. If the amount of the required expenditure is greater than the amount of subsidies, the payment of import subsidies makes sense in terms of the goal of bringing greater balance between total domestic supply and demand in the short term. Conversely, the reverse is true.

B.) In the long term, the effect of import subsidies on improvement of the relationship between domestic supply and demand and in regulating and readjusting expenditures may be vastly different from the short term effect. This is because the main reason for import subsidies is a hiatus between domestic and foreign prices, domestic prices being formed in a closed economic climate and being maintained lower through artificial means. Should subsidies be used under these circumstances to maintain a

certain volume of imports, though their use will certainly rapidly change the domestic supply and demand structure, this is only a temporary remedy that cures the symptoms without curing the root cause. Were China to rely on such a method for a long period to maintain the domestic supply of certain goods, development of the domestic import competition sector would be held back. The result would be a shift of resources away from the production sector for these products. This would ultimately lead to a worsening of the domestic allocation of resources with consequences for the industrial structure. Therefore, import policies as a long-term foreign trade policy may injure a nation's economic development.

As one of the countries in the world that subsidizes its imports least at the present time, China still subsidizes the importation of eight products including grain, crystal sugar, chemical fertilizer, processed steel, and agricultural pesticides. These subsidies both increase the nation's fiscal burdens and also impair development of domestic production of these products. Thus, they impair improvement of the domestic industrial structure. The result is bound to be that as a domestic market economy takes shape, economic adjustment expenses will increase further. At the same time, subsidies distort the operating behavior of foreign trade enterprises doing business in these products and muddy benefits from such business. In addition, it causes China's macroeconomic foreign trade policies and microeconomic behavior to deviate from international standards, which is detrimental to China's realization of the goals of foreign trade system reform. Therefore, we must use rapid reform of the price system as a basis for phasing out import subsidies as quickly as possible.

### Export Subsidies

Export subsidies are payments that a government makes directly or indirectly to goods producers or dealers so that export goods prices figured in terms of a common currency unit are lower than the price in the country to which the goods are exported. Such fiscal support tends to lower the business returns of domestic enterprises and to worsen trade conditions. It also distorts the trade orientation and commodity structure of other countries, damages the competitive climate, and sharpens international trade relations. Consequently, Sections 3 and 4 of Article 16 of GATT provides that "signatory nations shall strive to avoid subsidization of primary products...; for other than primary products, signatory nations shall not directly or indirectly provide any form of subsidy that makes the export retail price of these products lower than the comparable domestic retail price of the same goods." Even so, because of the balance between macroeconomic economic development requirements and overall benefits, it is completely understandable that every nation is unwilling to give up this policy tool. This is because, for developed nations, the benefits from the expansion of exports that export subsidies produce not only help overcome the lack of effective domestic demand, but also help promote the development of corresponding sectors through the development of the export sector. Foreign demand promotes full employment of domestic resources. Therefore, the increase in national income stemming from subsidies may be vastly greater than the minuscule losses that a deterioration of trade conditions creates. For developing nations,

since most face a situation of supply not meeting demand, the use of subsidies to spur exports can transform domestic consumption into investment. At the same time, it can increase foreign exchange earnings, making possible the importation of more of the advanced equipment and technology that development of the nation's economy requires, thereby serving to advance industrialization and modernization.

China is a developing country in transition to a market economy. This fact of life means that both in terms of national financial resources and economic system reform, our practice of a broad export subsidization policy not only runs counter to the requirements of a market economy, but also is not consistent with what China's fiscal condition can tolerate. Therefore, elimination of export subsidies, and regularization of fiscal support for the export trade is a prerequisite for improving results from fiscal regulation and regularizing the foreign trade system. Regularization of fiscal support for the export trade requires, first of all, that these fiscal support measures be coordinated with applicable GATT international trade standards. Second, efforts must be made to make these measures conform to the domestic situation, limited funds used to solve key problems in order to improve returns from macroeconomic fiscal regulation.

In the coordination of fiscal support with international standards, although all signatories to the "Subsidization and Anti-Subsidization Tax Regulations" reached in the "Tokyo Round" acknowledged that "subsidies are an integral part of developing countries' economic development plans," and although they agreed that so long as the subsidization of industrial goods exports by developing signatories did not seriously hamper the trade or production of another signatory nation, and that they could adopt policies and measures to support the industry of their own country; nevertheless, since China's fiscal strength is limited, and since China is striving to bring its foreign trade system in line with the international standard, large scale use of direct export subsidization policies is clearly not a wise choice. Instead, subsidies must be linked to domestic industrial policies, improvement of the industrial structure and promotion of the upgrading of industry used to spur the development of foreign trade, and to solve in a fundamental way the lack of efficiency and vitality in China's foreign trade system. Therefore, we must apply limited financial resources to the development of foreign-trade related industries, and to the research and development of associated capital construction. We must eliminate and reduce to the maximum extent possible the range of direct subsidies; and we must further curb public financing of foreign trade making foreign trade enterprises responsible for their own profits and losses and for their own operating decisions. Ultimately we must ensure a transformation from nonintensiveness to increased benefit in the development of the export trade, creating a benign cycle mechanism in the foreign trade system.

Improvement of fiscal support efficiency requires emphasis on improving macroeconomic returns, using limited financial resources in conjunction with industrial policy to render full support to the export of products of key industries, making the export trade produce the greatest possible chain reaction for development of the

national economy. Attainment of this objective will require solution to at least two main problems that now exist in supporting exports as follows: First is infelicitous fiscal support policies that produces no benefits; and second is misunderstanding of full tax rebates that results in excessively heavy fiscal burdens and a loss of effectiveness of tax rebates in readjusting the product mix and boosting exports. As the pace of China's reform and opening to the outside world picks up, exports have expanded rapidly, reaching \$85 billion in 1992 in a 2.15 fold increase over 1986 for an average annual 21 percent increase. If we fail to link industrial policy with a foreign trade development strategy in the face of such a rapid development of the export trade, but rather continue to regard complete tax rebates as meaning giving full tax rebates for all export commodities, the national treasury will become increasingly unable to bear the burden, and the function of tax rebates in regulating the make-up of commodity exports will also be weakened. Therefore, as China's export trade develops, full export tax rebates must be regarded as complete and full tax rebates for the export of products that are in keeping with industrial policy and the foreign trade development strategy with no restraint on the amount of tax rebates and the period of tax rebates. The extent of tax rebates for the export of other products should be gradually curtailed, however, or completely abolished when conditions improve (i.e., when export competitiveness reaches a certain level). Not only will this reduce the fiscal burden, but also improve the efficiency of fiscal support, making the most of the role of tax rebates for in regulating the mix of export commodities. In addition, the problem of indirect tax rebates for the exports by the three kinds of partially or wholly foreign-owned enterprises should also be considered flexibly in conjunction with the need for foreign capital. However, one point should be emphasized here, namely that no matter the kind of tax rebate, improvement of support results from tax rebates requires that high efficiency and timeliness of tax rebates be assured.

#### Tariff Policy

Tariffs are a form of taxation based on national policy, economic conditions, and needs that the Customs collects in accordance with applicable national regulations on goods entering and leaving the country. They are a form of macroeconomic fiscal policy of a revenue nature that a country uses to regulate the development of its foreign trade. Since this macroeconomic regulation measure is fairly transparent and can be easily monitored by international society in the course of its implementation, GATT deems it a "reasonable" measure for regulating trade that is in keeping with international regulations. A nation's tariff policy consists of import tariffs and export tariffs; however, in order to encourage exports, most nations have abolished export tariffs. However, in a small number of nations in which supply does not meet demand, relatively low tariffs are collected; thus, such export tariffs have little effect on the standardization of China's trade system. Conversely, because of the need to protect domestic markets and industries, and because of China's long separation from GATT, China's import duties are not only far higher than those of developed nations but far higher than those of developing countries as well. Therefore, standardization

of China's foreign trade system and coordinating macro-economic fiscal regulation and control measures with GATT requirements requires lowering of China's existing tariff levels and improving the tariff structure.

In order to mesh China's tariff policy with the international tariff system, and in order to gain early restitution of China's GATT status, since 1992 not only has China applied the internationally used "Commodity Designations and Coding Coordination System," but also has readjusted the import tariff rates first on 225 and then on 3,371 kinds of commodities, thereby lowering the country's overall tariff level 7.6 percent. Nevertheless, some problems with China's prevailing tariff policy remain, both in the overall tariff level and in the internal structure of tariffs. First of all, the prevailing tariff level remains higher than the average for developing countries. Further lowering of Chinese tariffs is an unavoidable task. Second, as regards the benefits obtained through tariff protection, because of tariff reductions and exemptions granted on technology transfers, and the importation of capital goods by joint ventures and China's special economic zones, China's actually collected tariff rate has been only between 12 and 16 percent of import value, far lower than the nominal tariff rate. This means a divergence between effective tariff protection and nominal tariff protection. Next, in the linking of the tariff structure to industrial policy, China's current tariff structure does not reflect the needs of domestic industrial policy. The two are disjointed. In the textile industry, for example, which has a fairly strong industrial foundation and is rather strongly competitive, the product import tariff rate is still as much as 86 percent. Such mindless protection not only raises the country's overall tariff level, but weakens innovation in this industry. It hurts further improvement of production efficiency. Finally, there is no spread between the regular tariff and the lowest tariff in the country's import tariff system. This reduces the role that the lowering of tariffs can play as a chip to be used in external trade negotiations. Therefore, greater study of the substance and the methods of tariff concessions, as well as reform of other tariff systems hold important real significance for improving the foreign trade-related fiscal control system. In this connection, attention should be given at least to work in the several regards cited below.

First is raising the actual tariff protection rate using tariff escalation methods. The degree of protection that tariffs provide the nation's industry is manifested not only in the nominal tariff rate, but even more in the tariff increase rate for added value per unit of product from imported product-related industries. This is to say that the higher the tariff levied on inputs into import-related industries, such as intermediary products and raw and processed materials, the greater the damage to improvement of the competitiveness of products from that industry. Moreover, only a relatively high tariff levied on the importation of the ultimate products of that industry, and a relatively low tariff, or no tariff, on intermediary input products is beneficial in increasing the effective degree of protection. Therefore, in the tariff system policy process, changes in the tax rate must be linked to the degree of processing of imported products, the import tariff rate for raw and processed materials and key intermediary products reduced or eliminated, the import tariff rate on finished

goods and products for which the country has a certain production capacity raised, thereby bringing about a decline in the country's average tariff level and changing the existing situation in which the nominal tariff rate is high, but the actual amount of protection is not enough.

Second is beginning to establish a dynamic tariff protection system that is linked to domestic industrial policy. The purpose of tariff protection is to establish and perfect a domestic industrial system and to promote development of the national economy. China's labor productivity rate and technological level are still very low today. The domestic industrial system is in a readjustment stage. In view of this situation, adoption of applicable tariff protection measures is essential, and it is also in keeping with GATT international trade regulations. Nevertheless, we must also realize that the competitive climate that products from abroad create in domestic markets play a dual role in development of the domestic economy. First, such products exert pressures; and second, they are destructive. The pressures play a positive role in promoting the maturation and development of domestic industries concerned. The destructive role stems from the introduction of excessive competition that has a destructive effect on the survival and development of domestic industries concerned. However, the building of a dynamic tariff protection system is for the purpose of obtaining the benefits while avoiding the harm, keeping foreign competition within reasonable bounds, and using the beneficial aspects of foreign competition to promote the maturation and development of China's industry. Therefore, in reforming the tariff system, every effort must be made to lower the degree of tariff protection for industries possessing certain production conditions (such as production scale and technological level) so that they mature through competition. For new industries, and nascent industries, the degree of tariff protection should be correspondingly raised to promote their growth with all possible speed.

Third is refinement of tariff regulations. Tax regulations are the basis on which the Customs levies duties. The designing of a body of tariff regulations in which the items to be taxed are clear, that has a classification system, and that can be scientifically applied is very necessary for the effective application of tariffs to the regulation of the import and export trade. The classifications used in China's current tax regulations are fairly crude. They can scarcely gain desired results in actual operation. For example, very many problems exist regarding motor vehicles items to be taxed, the classification of old and new vehicles, the classification of vehicle types, and the classification of spare parts. Some taxable items should be controlled; others should be decontrolled. The result is that the regulatory role of tariffs cannot meet the needs of the domestic economic situation. However, Brazil, Indonesia, Venezuela, and Argentina have classified all vehicle models, the kinds of special purpose vehicles, vehicle spare parts, old and new vehicles, and vehicles from different countries. They have also set different tariff rates on the basis of the circumstances of their individual countries, and policy limitations are extremely clear. The importation of vehicle models that a country can itself produce should be heavily taxed, low taxes or no taxes at all levied on imports of models that the home country cannot produce or has no intention of producing, thereby giving



full expression to the regulatory role of tariffs in the development of home country industry.

Fourth is widening the difference between regular tariffs and the lowest tariff to improve bargaining capabilities in trade negotiations. China's "Tariff Regulations," which were amended for implementation on 15 October 1987 provide that "goods imported from nations that have concluded reciprocal trade treaties or agreements regarding tariffs with the People's Republic of China shall be taxed at the lowest tariff rate; goods imported from nations that have not concluded reciprocal trade treaties or agreements regarding tariffs with the People's Republic of China shall be taxed at the regular tariff rate." This different tariff treatment permits goods from different nations to compete on different terms in China's markets. However, the difference between the regular tariff rate and the lowest tariff rate in prevailing Chinese tariff regulations is not great. It is only 5 to 30 percent, not enough for China's preferential tariff rate to play a role in economic relations with foreign countries. In this regard, the U.S. example explains the problem very well. Its regular tariff rate is generally between 1 and 5 times higher than its preferential tariff rate. For some commodities, the difference is even greater. For wool sweaters and household utensils, the preferential tariff rate is 6 percent, but the regular tariff rate is 60 percent. The preferential tariff rate for toys is 6.8 percent, but the regular tax rate is 70 percent, etc. Thus, in foreign trade talks and in actual trade practice, most favored nation treatment has become a powerful weapon for the United States. Therefore, in the reform of China's tariff system, the difference between the regular tariff rate and the lowest tariff rate for certain imports must be widened in a purposeful way. The difference should be at least double or more.

In short, both for the purpose of standardizing China's foreign trade system and for building a socialist market economy, reform of the existing tariff system to bring it in line with international standards is imperative. However, during the process of reform and bringing it into line, the principle must be followed that the tariff system must help domestic industry develop and meet the needs of economic intercourse. The items to be taxed must be refined. Those that should be controlled must be controlled; those that should be decontrolled should be thoroughly decontrolled; and timely readjustments must be made in the tariff structure as readjustment of the domestic industrial structure and development of the national economy require, the overall tariff level lowers so that China's tariff system will move in the direction of the international standard with all possible speed.

### Changing Specialized Banks to Commercial Banks

94CE0031A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese No 8, 11 Aug 93 pp 51-54

[Article by Yang Zhongyuan (2799 0112 0337) and Zhou Cequn (0719 4595 5028), Guangxi Branch, Chinese Bank of Agriculture: "Thoughts About Converting the Specialized Banks to State-Owned Commercial Banks"]

[Text] What Is a State-Owned Commercial Bank?

We feel that a state-owned commercial bank is a commercial bank first of all, just as a state-owned enterprise is, first of all, an enterprise. Therefore, before discussing the specific form of state-owned commercial banks, we will first clarify what a commercial bank is.

The traditional definition used in western nations is that a commercial bank is a financial institution that provides customers accounts on which they may write checks and that makes self-liquidating commercial loans. In other words, it is a bank that is able to create derivative savings, create money, and make short-term loans primarily in the form of discounted commercial paper. In the past, the business of very many banks and non-banking financial institutions has been limited so they were unable to perform the foregoing functions; consequently, commercial banks were the financial institutions offering the most complete functions. It is also for this reason that the central bank enforced savings reserves and other policy restrictions (such as control over the ratio between assets and liabilities) of commercial banks as means of controlling ability to expand their business in order to protect depositors interests and ensure implementation of state monetary policies.

Of course, some of the foregoing ideas are out of date; they no longer reflect the present situation. For example, theories about limiting self-liquidating loans were exploded long ago; thus, commercial banks have long since begun making more than short-term, working capital loans. Following World War II, and during the past decade or more, in particular, with the advent of the financial innovation movement in the west, the financial tools and range of business of commercial banks have expanded rapidly, the general trend being toward more functions and greater comprehensiveness. The range of services and methods have increased greatly.

Simply stated, these changes may be capsulized as follows: commercialization of funds; setting of interest rates by the market, internationalization of business, diversification of services, and modernization of methods. These five changes are also a mark of the maturation of commercial banks.

In organizational terms, commercial banks do not differ from other business. Most are corporations, meaning that they operate as corporate legal entities (naturally, also as sole-proprietorships and as limited liability companies). The organizational system of commercial banks is of both the single system and the branch and sub-branch system kinds. In the single system kind, there is only a single institution (mostly in the United States). In the branch and sub-branch kinds, branches and sub-branches are set up below the main office, most of them abroad in the case of some fairly large banks, i.e., they have numerous branches and sub-branches abroad.

In terms of capital structure, one or more financial groups control the shares of most commercial banks, i.e., they operate as share (holding) companies. They are privately owned, but naturally in some countries the state holds shares or controls shares. The renowned Credit Agricole de France is mostly "government run." As a practical matter, the ownership of commercial banks has little effect on their

character inasmuch as they universally operate as corporate juridical entities, practice the separation of ownership and operating rights, and abide by uniform commercial banking operating policies and regulations. Therefore, different forms of ownership have no great effect on their administration and management. Furthermore, more broadly looked at, in very many of the central banks of capitalist countries, most of the capital is privately owned or is under joint public and private ownership. This does not affect the exercise of bank functions in any way. For commercial banks, the ownership system is naturally of even less importance.

One feature of western commercial banks is that they express the link between industrial capital and credit capital. They also express the desire of industrial capitalists to use financial methods to serve themselves, and to increase their control over economic activities. This is the "monopoly capitalism" and "financial oligarchy" process about which Marx and Lenin spoke. Objectively speaking, this linkage and intermingling expresses objective requirements for the development of productivity, and its formation spurs, in turn, the development of productivity. Clearly, the formation of the commercial banking system is inherently necessary for the development of a commodity economy. The foregoing explains commercial banks in general terms. But what should be the character of China's state-owned commercial banks? As was said earlier, they should have the general characteristics of commercial banks, but they should be different from privately owned commercial banks in the following ways: First, since they will be state-owned or state-controlled, their ultimate operating plans, objectives, and policies should be limited by the state. In other words, the state should have "ultimate decision making authority" over their operating plans and policies. Their relationship with the central bank and the state should not be purely that of the controller and the controlled as is the case with privately owned banks, but rather a complementary and cooperative relationship premised on adherence to commercial banking principles. This is because their fundamental interests and fundamental objectives are identical. Third, in view of China's current circumstances, specialized banks in their capacity as state-owned commercial banks are also responsible for certain business of a national policy nature. This means that the possibility cannot be ruled out that under certain circumstances the state will require that they conduct certain business in support of policy in the future.

## 2. The Main Problems That China's Specialized Banks Face and Problems in Changing Into Commercial Banks

The main problems and incongruities of China's commercial banks revealed in market economy reform have been as follows:

1) The former methods for controlling the scale of credit, which consisted primarily of command-style plans and vertical apportionment, do not meet needs for development of a market economy. Their shortcomings show up first in the apportionment "scale" lacking a scientific basis. This frequently causes a conflict between the "scale" of funds made available and the need for "funds." Second, it gives banks at all levels no incentive to assemble funds. Third, it works against the formation of bank self-restraint mechanisms; and fourth, it makes banks tend to deal

vertically within their own corporate structure rather than laterally with other banks. This is not in keeping with a market economy in which lateral financing is the main form of economic activity. 2) The central bank's method of direct finance regulation and control primarily through administrative means greatly impairs the specialized banks' ability to make their own operating decisions, and they lose a relatively relaxed and elastic operating environment. 3) The lumping together in a single entity of business conducted for policy reasons with commercial business renders impossible true reform to make banks operate like businesses, and makes it difficult to attain the business goal of maximizing profits. 4) The highly centralized interest rate control system, which is inconsistent with the needs of a market economy, means that interest rates lose their role as levers in the economy. These levers cannot function to regulate the supply and demand of funds and currency circulation. 5) The traditional division of labor barriers in the specialized banks limit normal competition within the banking industry. The preferential policies that apply to newly founded commercial banks (such as the Bank of Communications) put the specialized banks in an unequal competitive position. 6) Local government administrative interference cannot be halted. Government garnishing or diversion of credit funds is rampant, banks at all levels being unable to make their own operating decisions (particularly the right to make their own credit decisions). 7) For various reasons, the quality of credit assets has deteriorated. Large amounts of credit funds have precipitated out or lie idle, benefit from them steadily declining. Steady expansion of the scale of credit is required to increase the supply of currency to sustain business. 8) Banks do not provide diversified services, and their business methods are backward. Bank business is pretty much limited to the traditional savings, credit, and exchange. New kinds of business are just getting started. Services are provided mostly by hand. 9) Financial markets are not fully developed; thus, financing is restricted. As principle financial market entities, the specialized banks lack real authority to make financing decisions. Inter-bank credit exchange markets suffer from barriers between higher and lower levels, and between different banks. Securities markets are incomplete and deformed. The raising of capital from the public is chaotic and out of control. 10) The quality of the work force tends to be low; it cannot meet the needs of the new circumstances. The manpower personnel system that calls for guaranteed employment, pay parity, and various perquisites is detrimental to the maturation of human talent and improvement of the level of management, nor does it arouse to the full the fervor of the broad masses of staff members and workers, etc.

Making a change to state-owned commercial banks requires changing the various unsuitable situations cited above. Transition to commercial banks requires surmounting difficulties in the following regards:

1) Separation of business done for policy reasons from business done for commercial reasons. Only by so doing can the specialized banks truly move ahead with operating like business concerns, setting up an operating system in which making a profit is the main goal. 2) The central bank must change its direct, command style macroeconomic financial regulation and control methods, replacing them

with mostly economic means and indirect regulation and control methods. 3) Increasing banks' independence, halting administrative interference by governments and departments at all levels. The independence of banks must apply to the entire banking system, not just to the central bank. For the central bank to be independent while the specialized banks are not independent is like building castles on the sand. Making the banks independent will require not only legislation, but a genuine change in the functions of governments at all levels, including reform of certain associated systems (such as the level-by-level fiscal contracting system). Separation of government administration and enterprise management in state-owned banks, making banks at all levels relatively autonomous juridical entities. For decades, China has regarded banks as government or quasi-government institutions over which government exercised direct regulation and control, and which government operated directly. Even during system reform, the separation of bank ownership and operating rights was not proposed. However, lacking status as independent juridical entities, banks cannot truly be "responsible for their own profits and losses, seek their own balance, bear their own risks, be responsible for their own development, and be self-restraining." 5) Gradual setting of interest rates by the market. Letting the market set interest rates is necessary for the commercialization of banks, and letting the market set interest rates requires that commercial banks and industrial and commercial enterprises truly become market entities making their own operating decisions. This poses substantial difficulties. 6) Associated reform of the social security system and the labor personnel system throughout society. This is necessary because piecemeal reform is unlikely to be truly successful.

#### **The Pattern of China's State-Owned Commercial Banks and Ways To Change It**

##### **1. The Pattern of Organization and Management of China's State-Owned Specialized Banks.**

The specific idea is for a state holding company or the State Administration of State Property to be the main holding body for the head offices of these banks, other institutions concerned (such as the government treasury and large enterprise blocs) holding shares as well for the formation of a commercial bank share holding corporation. Each level below the head offices would control shares. The head offices would control shares in provincial branches; provincial branches would control shares in prefecture and city branches; and prefecture and city branches would control shares in county sub-branches. The holding company should control 51 percent or more of all shares.

Banks at all levels would have four categories of shares, namely state shares, juridical person shares, enterprise collective shares, and staff member and worker individual shares. However, all the assets held by all banks at the present time (including credit funds, business accumulations and fixed assets, and general property) would be covered by the state shares. Only after implementation of the share system would enterprise accumulations be handled as collective shares (a portion of collective share dividends being taken for collective welfare and for distribution among staff members and workers). This handling would avoid the differences in benefits resulting from

separate banks having a different base. It would also get around difficulties stemming from a small number of staff members and workers holding collective shares (because very many former bank staff members and workers have left a bank).

Following implementation of the share system, all specialized banks would pay taxes and profits to the state separately. Inasmuch as the difference in returns resulting from separate specialized banks long practice of a specialized division of labor cannot be eliminated in a short period, their tax rates could be set separately (banks in the same specialized bank system located in different places could also use different tax rates) in expression of the fairness principle.

Once the share system has been instituted, banks at all levels would become independent juridical persons, each of them establishing their own board of directors, board of supervisors, and shareholder meetings (or shareholder proxy meetings), shareholders exercising control as the share system provides. In order to avoid the government, which holds a majority of the shares, resuming monopoly bank operation and administrative interference, state-owned shares (i.e., the controlling shares) should be divested of authority to operate as enterprises and be treated as preferred shares. State control over banks should be limited to the appointment of juridical person representatives (i.e., to the board of directors), and approving the appointment (or discharge) of general managers (or managers). This will enable staff members and workers, and shareholding juridical entities truly to exercise their rights as masters in transforming the operating mechanism.

Advantages from the adoption of the above method of organization and management are as follows: A) The state may allocate funds for other purposes. B) It helps in the consistent raising of public fund. C) Local governments at all levels may be shareholders, thereby improving banks' relations with local governments to avoid improper bank meddling in bank affairs. D) It arouses to the full the fervor of bank staff members and workers. E) The separation of ownership and operating authority increases bank independence. F) It helps move ahead with various reform measures for a true transformation of enterprises' operating mechanisms.

##### **2. Readjustment and handling of several key relationships.**

A) The relationship between banks and the state. In addition to paying taxes according to regulations and distributing state share dividends, the relationship of banks to the state is largely one of observing discipline and abiding by the law. The state must give up its traditional notions about commercial banks serving as government institutions and tools for financial regulation and control. Government must truly respect banks' operating autonomy and their independent rights and interests.

B) The Relationship Between Commercial Banks and the State Administration of State Property or State Holding Corporation. Although the State Administration of State Property (or the state holding corporation) is the representative of state-owned share rights, it only has the right to receive regular dividend payments and to ensure that state-owned shares are intact, increase in value, and are not infringed. It does not have the right to meddle in



banks' day-to-day operations. Nor does the treasury have the right to garnish or divert the credit funds of commercial banks. Should it do so, commercial banks should take decisive actions to protect their own interests.

C) The Relationship Between Banks and the Central Bank. The central bank is the financial administrative and control organ and the financial macroeconomic regulator and controller, but it cannot use administrative methods to force commercial banks to realize its regulation and control objectives. It may use only economic means (inducements) to get commercial banks to act as it desires. The central bank controls commercial banks according to law. Commercial banks must abide by financial policies and regulations, and they have an obligation to act in accordance with central bank plans and policies. However, such action must not damage their own legal rights and interests. The central bank must also change any tendency itself to operate as a commercial enterprise.

D) The Relationship Between Banks and Local Governments. Local governments may hold shares in commercial banks, their rights and obligations limited to those that the share system prescribes. Legal means must also be used to divest local governments of their personnel control authority over ranking commercial bank personnel, and their right to interfere in credit matters. The relationship between commercial banks and local governments is one of operation according to law and commercial contact.

E) The Relationship Between Commercial Banks and Enterprises. The duty of banks to supply funds to enterprises must be thoroughly eradicated. Banks and enterprises go their own separate ways, exchange at equal value, and establish a equal partnership and customer relationship.

3. Demolition of the traditional barriers of a specialized division of labor, developing inter-bank equal competition.

The transformation of specialized banks to commercial banks requires banks to provide a complete range of business services, demolishing the former limits of a professional division of labor. It also requires that all banks begin from an equal "starting line." Therefore, policies must treat them all equally and without discrimination, the central bank regarding them with equanimity.

4. Correct Handling of Burdens Inherited From History.

When the share system is put into practice, the abnormal stagnation of funds must be examined, ranked, and dealt with: A) Bad debts incurred for various reasons must be cancelled after verification. B) Loans that cannot be recovered for various real reasons may be converted to investments in enterprises as the circumstances of individual creditors permit. Alternatively, they may be recovered by the sale of enterprise property, or they may be cancelled in part. C) Short-term loans that have not been repaid over a long period, and that have become, in effect, loans that serve as start-up funds for enterprises may be converted to a bank investment in the lending enterprise, if possible. Otherwise the central bank should correspondingly increase the amount of credit funds allocated to the bank.

5. Separation of business conducted for policy reasons.

The specific steps to be taken to separate business conducted for policy reasons are as follows: Initial separate

handling of accounts, making separate accountings, or turning such accounts over to an agency for handling. When conditions are right, banks specializing in conducting business for policy reasons should be set up to take over all of the business that the specialized banks perform for policy reasons. Before this is done, however, whether separate accounts are set up or whether an agent handles such accounts, two principles should be adhered to as follows: A) unified control of the sources of credit funds and the uses of credit funds provided for policy reasons, and B) compensation in full of the loss of interest that banks sustained on such credit.

6. Control of the Ratio Between Assets and Liabilities To Take the Place of the Prevailing Control of "Scale"

First, control of the scale should be diluted, funds gradually taking the place of scale. Then fine tuning should be done over a period of time to control the ratio between assets and liabilities. As a corollary, the central bank should gradually explore the use of indirect regulation and control methods consisting mostly of the "three great magic weapons."

7. Gradually Movement Toward the Setting of Interest Rates by the Market.

Relaxation of the highly centralized control of interest rates, expanding the authority of all operating banks to let interest rates float, followed gradually by operating banks being able themselves to decide their interest rates. The central bank should set only relending and rediscount rates, as well as the ceiling on savings account interest rates and the floor for loan interest rates.

8. Initiation of New Business, Gradually Diversifying Assets to Liabilities Ratios

Changing to commercial banks means advancing gradually toward the goal of having "financial department stores" offering a variety of wares. Thus, efforts must be made to change the current situation in which bank assets and liabilities are unvarying, and their functions incomplete. Vigorous efforts must be made to inaugurate trust, investment, securities, leasing, real estate, information consulting, and international business, attempts made to enter the international market and to make advances abroad.

9. Reform of the Method of Establishing Banking Institutions by Administrative Zone.

The methods used by commercial banks, such as the Bank of Communications, may serve as a model for this reform. Destruction of administrative zoning in setting up banks helps avoid administrative interference, and helps improve economic accounting, thereby helping establish the image of banks as business enterprises. For example, the Bank of Agriculture might cut back on the number of its township and town institutions in remote mountain regions where the volume of business is extremely small, turning over this business to credit cooperatives and agricultural cooperative funds in order to engage in truly intensive operation and become commercialized.

10. Acceleration of business methods and the modernization of facilities, constantly inaugurating new financial instruments to meet inter-bank competition and the challenges to be faced following restitution of China's GATT status.

11. Reform of the labor personnel system to improve the manpower corps.

Decision-making authority must be accorded banks at all levels in their employment of cadres, in how they assign workers, in where they set up banking institutions, and how they apportion their returns, the positive role of staff member and worker democratic control and supervision exercised to the full. The educational level of bank staff members and workers must be gradually reformed,

emphasis going to improving their professional caliber. Therefore, while moving ahead with the share system transformation, energetic efforts should be put into moving ahead with reform of the labor personnel system, emphasis going to improving the competition mechanism to help the emergence of outstanding talent. We must gradually build a banking system manpower personnel system characterized by high caliber, strict requirements, high efficiency, and high remuneration, fundamentally changing China's backward banking business.

## INDUSTRY

### Light Industrial Sales Value by Area in October

HK2311120793 Beijing CEI Database in English 23 Nov 93

[Text] Beijing (CEIS)—Following is a list of light industrial sales value by areas in China in October 1993 released by the State Statistical Bureau:

(Unit: 100 million yuan)			
Area	10/93	1-10/93	Change Over 1-10/92 (pc)
Total	1323.76	12424.98	23.6
Beijing	29.63	275.87	8.0
Tianjin	28.41	269.78	11.5
Hebei	41.88	402.97	13.6
Shanxi	10.24	99.72	8.5
Inner Mongolia	9.33	86.81	3.6
Liaoning	38.92	380.56	10.1
Jilin	18.57	176.56	7.8
Heilongjiang	20.87	215.48	0.3
Shanghai	93.47	902.91	12.3
Jiangsu	196.10	1860.94	35.3
Zhejiang	133.68	1198.45	36.4
Anhui	36.97	365.29	28.5
Fujian	44.12	396.66	38.7
Jiangxi	21.07	200.65	24.4
Shandong	128.55	1117.55	32.9
Henan	52.23	445.36	21.9
Hubei	44.24	445.83	14.7
Hunan	29.82	286.50	10.0
Guangdong	198.15	1854.08	34.6
Guangxi	23.86	244.09	20.6
Hainan	3.41	39.81	24.4
Sichuan	54.72	533.01	11.7
Guizhou	7.72	70.62	-4.1
Yunnan	16.89	191.27	12.6
Tibet	0.09	0.71	
Shaanxi	18.19	160.68	13.9
Gansu	6.58	62.91	3.0
Qinghai	1.47	13.02	4.9
Ningxia	1.60	16.35	10.2
Xinjiang	12.98	110.54	15.5

**Industrial Sales Value by Area in October***HK2311120693 Beijing CEI Database in English 23 Nov 93*

[Text] Beijing (CEIS)—Following is a list of the industrial sales value (measured in the 1990 constant price) by areas in China in October 1993, released by the State Statistical Bureau:

(Unit: 100 million yuan)			
Area	10/93	1-10/93	Change Over 1-10/92 (pc)
Total	2765.97	26450.66	23.7
Beijing	74.64	749.33	10.6
Tianjin	68.32	646.59	19.5
Hebei	104.17	1007.08	19.5
Shanxi	48.50	470.56	11.2
Inner Mongolia	26.51	247.73	9.3
Liaoning	150.39	1478.71	12.6
Jilin	49.99	528.53	15.3
Heilongjiang	73.16	717.04	2.7
Shanghai	201.54	2004.91	16.1
Jiangsu	370.13	3619.61	38.4
Zhejiang	201.11	1875.78	34.8
Anhui	72.58	712.42	26.3
Fujian	70.46	640.03	36.6
Jiangxi	46.60	455.99	23.8
Shandong	253.71	2256.14	33.5
Henan	108.86	982.36	21.1
Hubei	107.54	1070.75	19.6
Hunan	70.65	704.46	12.8
Guangdong	296.53	2764.50	34.8
Guangxi	49.11	466.15	26.9
Hainan	5.34	59.03	30.1
Sichuan	142.43	1367.15	20.9
Guizhou	23.43	213.81	8.1
Yunnan	36.20	369.79	10.3
Tibet	0.28	2.18	
Shaanxi	45.23	428.32	17.7
Gansu	28.48	273.00	10.3
Qinghai	5.93	53.67	14.6
Ningxia	7.78	73.66	14.7
Xinjiang	26.37	229.38	11.8

**Upgrading Textile Industry Technology**

94CE0056B Beijing JINGJI CANKAO BAO  
in Chinese 1 Oct 93 p 4

[Article by Hou Guozheng (0186 0948 2398): "How Can Top-Grade Material Be Produced With Third-Rate Equipment?"]

[Text] The textile industry is China's traditional mainstay industry. While our textile equipment has been being replaced in recent years, it is generally still only at the international level of the late 1960s and early 1970s, or

nearly three decades behind advanced international standards. One-third of our cotton-spinning equipment is in extended service (more than three decades), with 60 percent of the equipment of our printing and dyeing enterprises in extended service, and 40 percent of our textile exports of clothing also being mostly low and medium grade. As it is very hard for us to meet international market demand under such conditions, we are faced with a very pressing technological-upgrading mission.

In recent years, world textile equipment has been developing rapidly in the direction of automation, continuous



operation, and high speed and efficiency, with certain rising textile-producing countries accelerating their technological advances to conform to this trend. For instance, the 1 million new spindles that Thailand has added in recent years (or one-third of its total) essentially all use the most advanced international technical equipment. While China makes over 200 significant research achievements a year, over 50 percent of them are not applied due to factors, such as projects being unfocused and dissemination funding being in short supply. For instance, while we developed during the Sixth Five-Year Plan "real-silk wrinkle- and shrink-proof finish" technology, which effectively solves problems, such as real-silk shrinkage and finishing difficulties, and has been called a major new idea in real-silk finishing, this achievement is still not in widespread use for a number of reasons. The gap between China's textile equipment and advanced world standards is widening steadily. As to weaving, China's shuttleless looms make up only 2 percent of all of our looms, while the ratio of shuttleless looms in use throughout the world is generally 12 percent, reaching a high of about 60 percent, but still only 6.5 percent in Nantong, Jiangsu, which has always been famous for its textile-industry development. In addition, the sword-shaft looms that are in the category of advanced equipment and still rare in China are considered obsolete by many overseas mills, having been replaced by air-jet looms.

As to long-range trends and developments, its backward technology and equipment is facing our textile industry with even stiffer challenges. For instance, our neighbor South Korea drew up in 1989 a "Seven-Year Plan for Textile-Industry Improvement," and is now making a large investment in actively developing new equipment. While South Korea exported \$15.1 billion worth of textiles in 1989, it plans to export \$22.7 billion worth by 1995, to rank second in the world, with quality up to Japanese standards, and its percentage of pattern designs, self-created export brands, and high-grade material production up to 10 percent. South Korea's textile-industry plans for the year 2000 are for its equipment-obsolescence rate to be down to under 30 percent, its exports to reach \$80 billion, its quality to be up to Italian and French standards, its patterns and designs to be world-class, and its high-grade material production to reach 15 percent. It is becoming increasingly impossible to treat competition pressures from the outside world lightly. It is projected that the future international textile-trade growth-rate may reach 6-8 percent, with the new trade opportunities being mostly in high-tech, high added-value, and industrial-use textiles. As the products made with our traditional equipment will not meet international-market demand, meaning that technological upgrading is extremely urgent, textile-industry experts have made the following policy recommendations:

1) We need to raise our awareness of the importance and urgency of technological advances for China's textile industry, by genuinely placing promotion of technological advances in a priority strategic position for textile-production development. 2) We need to conduct conscientious investigations and studies, hear views from all parties, and do a good job of technological planning. Our planning should involve three combinations, i.e., combining independent development with technology introduction, absorption, and assimilation, combining research

with achievement-dissemination, and combining achievement-dissemination with enterprise-equipment replacement and upgrading. 3) The state needs to provide policy and funding support for textile-industry technological advances. Particularly for the cotton-spinning industry where equipment ageing is especially severe, the state needs to apply appropriately preferential policies in areas such as loans, taxes, and fixed-assets depreciation, giving enterprises the capability for equipment replacement and upgrading. 4) Textile enterprises themselves need to develop a sense of crisis and urgency, by actively projecting market trends, and developing marketable products in a timely fashion, in order to enhance their ability to survive and grow in the market-economy sea. This is the most crucial point as, if it cannot be achieved, enterprises will find it hard to even maintain their normal production operations, not to speak of any technological advances or equipment replacement.

### Measures To Improve Industry in Heilongjiang

94CE0079A Harbin FENDOU [STRUGGLE] in Chinese  
No 9, Sep 93 pp 8-9

[Article by Yi Enpu and Fang Zenghua, affiliated with the policy research office of the CPC Heilongjiang Provincial Committee: "Thoughts on the Slow Movement of Our Province's Industry and Measures To Tackle This Problem"]

[Text] In recent years our province's industry has all along been moving slowly. In January-April, industry nationwide grew by as much as 23 percent, but our province's industry was in a state of zero growth. In the first half of the year, the country as a whole grew by 25.1 percent, but our province grew by only 2.3 percent. In view of the industrial structure, it is normal to grow at a rate slightly lower than the national average, but the current situation which presents a very abnormal, sharp contrast with the rapid growth in the country as whole, especially in the developed provinces, warrants great attention.

#### I. The Causes of the Slow Movement

1. Funds are inadequate and are not enough to support a normal rate of growth in industrial production. In our province enterprises' own funds are very limited, and over 85 percent of circulating fund is based on bank loans. But, the situation regarding bank lending is as follows: First, the rate of increase has declined. This year, nationwide there is an increase 7.7 percent in new lending over the previous year, but our province saw a decline of 10 percent. Toward the end of April when high circulating-fund input was urgently needed, our province's growth in industrial lending was \$40 million yuan smaller than the same period last year. Second, deposits are inadequate. At the end of April, loans issued by our province's banks totalled 108 billion yuan, with industrial loans accounting for only 33.67 billion yuan; only 30.12 billion yuan was really used for loans given to production enterprises. This means that the entire province's industry is basing its output value amounting to nearly 100 billion yuan on funds totalling 30.12 billion yuan. Third, despite repeated cleaning up campaigns, "triangle debts" still exist. In the first quarter this year, the debts that were owed to all the enterprises in the province totalled 4.59 billion yuan more than the debts that all the enterprises in the province owed. In this

respect, debts owed to large- and medium-sized enterprises totalled 4.03 billion yuan, an increase of 160 million yuan over the same period last year.

2. Technological renovation input is low, and enterprises lack the capabilities for competition and sustained growth. Longjiang is an old industrial base. After 40 years of operation, technology and equipment are very old. The average term of service for mechanical equipments is 14 years nationwide, but over 18 years in our province. The newness coefficient for equipment is over 0.6 nationwide, but only 0.55 in our province. In terms of products, only 15 percent of the products are in the early stages, while 19 percent are in a declining period. Most are in a transition from the matured period to the declining period. Our province's industry owes a very large technological renovation debt. According calculations based on the national average, our province has accumulated a 6-billion-yuan technological renovation debt over the 11 years; this is the same as being two years behind in technological renovation.

3. Because of the planned-economy habits formed over many years, there has been a failure to assume roles in market economy as soon as possible, and there has been the tendency to be at a loss what to do in the face of market economy. Sectors operating on the basis of state monopoly entered the market quickly, but many enterprises in our province have not been able to accommodate this situation in terms of both ideas and behavior. First, after changing into operating as businesses, banks took the lead in entering the market economy; funds have flowed to economically developed regions, newly emerging high-tech industries, and industries generating high returns on capital. As a result, our province's industrial economy, which lacked funds in the first place, are in an even more difficult situation. Second, the railway sector's entry into the market economy has accelerated; the deployment of cars is less governed by mandatory plans than before, and the role of guidance plans has increased. With the establishment of the new mechanism which links up transport prices with prices of goods, provincewide railway transportation is in a very tight situation.

4. The special effects of the industrial structure. Our province is a major raw material-producing province. The value of industrial output of the resource-extracting industry accounts for 43.3 percent of the province's total value of output. In recent years the resource-extracting industry has passed its peak period in terms of the production cycle, and is generating zero or negative growth, thereby seriously hampering the acceleration of industrial growth. Because of the depletion of resources, the annual output of the forestry industry has declined yearly, falling from 12 million cubic meters to 6.59 million cubic meters this year. The value of output of petroleum accounts for 27.8 percent of our province's total value of industrial output. Daqing's total output has stayed at an annual amount of 55 million metric tons for 11 years in a row, and is declining amidst stability because of resource-based constraints. After the opening up of the coal industry market, because of many factors such as that of railway transportation, our province's coal industry has been determining production scales on the basis of the marketing situation, and there is suspension of production or

semisuspension of production in many mines at the four big coal cities of Hegang, Jixi, Shuangyashan, and Qitaihe.

5. Our province's economic development is, as a rule, half a step behind the economic development of the country as a whole. In 1992, the national economy experienced such phenomena as the capital-construction investment craze, craze for the building of various development zones, real estate craze, stock and bond craze, and establishing companies craze. But, our province did not experience such craze phenomena. Take the example of development zones. In 1992, nationwide as many as 8,700 development zones of various types at the township level or above were established, but our province only established 22 development zones of various types, accounting for only 2.5 per thousand of the number for the country as a whole.

6. In the area of economic development, our province has missed several development opportunities. During the transition from fiscal allocations to loans in relation to capital construction, it did not dare to operate on a debt-incurring basis, and failed to timely adjust the industrial structure, through exploiting the opportunity for industrial development provided by the relaxed nationwide situation regarding the supply of funds.

## II. Forecasts and Prospects

Presented in the following section are preliminary forecasts on our province for the second half of this year and next year made on the basis of analysis of the trends in our province's economic development and the related factors. On the whole the situation is serious, but prospects are good. It is necessary to exploit the advantageous conditions as much as possible, overcome difficulties, and work hard, so as to promote economic development.

1. The macroeconomic environment is conducive to the accelerated growth of our province's industrial economy. In terms of the country as a whole, 1992 saw three big changes in economic life. First, with the gradual establishment of the system of market economy, the part regulated by the market increased, and the part governed by mandatory plans was reduced; prices were gradually decontrolled, and some originally irrational values and prices of products were rectified. In our province large- and medium-sized enterprises are still doing better than small enterprises; industrial economic efficiency is on the rise; the number of loss-making enterprises has declined to some extent from the same period last year; and the work of implementing enterprises' autonomy has produced preliminary results. Second, economic development changed from being jointly propelled by investment and consumption, as was the case in the 1980s, into being mainly propelled by investment. Propelled by the rapid increase in the nationwide scale of investment, our province's heavy industry has kept growing, and production and marketing are brisk in the machinery, building materials, metallurgical, electricity, and other industries. Third, economic actors were diversified, and the proportion of the nonstate economic sector increased. This sector is not participating in market competition passively, but actively participating in the competition in the socialist market economy, thereby stimulating the development of the state sector.

Nonstate economic entities in our province, like individual business operators and private and township enterprises, have developed substantially, thereby giving new vigor to the development of our province's local economy.

2. The factors unhelpful to the development of our province's industrial economy are being gradually weakened, and the economy's own strengths are being gradually exploited. The main foot-dragging problems are being gradually solved. First, with regard to the sugar industry which is a key industry having a bearing on our province's light industry system, the loss-eliminating plan formulated by the provincial government is now being implemented successfully. The losses incurred by the sugar industry totalled 560 million yuan last year, and are planned to be reduced by 300 million yuan this year; and the hope is that losses will be completely eliminated within three years. Second, with regard to the cotton textile industry, the lack of funds and raw materials has resulted in a falling rate of growth in the entire textile system. With an injection of 50 million yuan of funds which can be used to purchase the raw materials needed by the textile industry so that its capacity may be fully utilized, the textile system's growth rate will become normal. Third, the downward adjustment of timber output of the forestry system has been achieved this year; thus a balance between replenishment and depletion of forestry resources has been achieved, and the forestry industry has entered the stage of benign development. Currently it is the forest products industry that is affecting the loss-making situation in the system as a whole. The Forestry Industry Bureau has formulated a plan to eliminate losses in the entire industry within three years. Fourth, the Coal Ministry has formulated a plan to eliminate losses in the coal industry nationwide within three years. As a major coal-producing province, our province can be expected to join coal enterprises in other parts of the country in eliminating losses. Fifth, the situation in the petroleum industry is improving. The share of Daqing in the nationwide petroleum industry is gradually declining. Recently the state has adopted three preferential policies, giving it control over the selling of 5 percent of its total output, letting it sell 20 million metric tons at a high price instead of the state-set price, and allowing it to join the localities in carrying out joint development of small oil fields around Daqing. Sixth, our province's nonstate economic sector has grown rapidly, thereby stimulating the development of the industrial economy of our province as a whole. In the first half of the year the value of output of township enterprises provincewide increased by 64.2 percent over the same period last year. Seventh, railway transport shortages have been alleviated. In the second half of the year the railway sector will make sure that 8,010 cars are loaded each day and that the task of transporting 95.42 million metric tons of goods is accomplished. Eighth, the situation in the sphere of foreign economic relations and trade is still and will continue to be good. The volume of border import and export trade has increased substantially. The number of projects of economic and technological cooperation has increased substantially, and the pace of foreign capital utilization has quickened; thus the potentials of both the international and domestic markets will be further exploited.

3. Under the favorable conditions, it is necessary to make active efforts so as to be ready for new challenges, but not to be blindly optimistic. According to preliminary analyses

of this economic cycle made by authoritative figures at home and abroad, under normal circumstances the Chinese economy can still keep growing rapidly this year and next year. The year 1995 may see the trough. Four things will continue to be high in regard to economic development this year. That is, first, the growth rate of the national economy will continue to be high; second, the rate of growth in fixed asset investment will continue to be high, and investments may total 980 billion yuan or nearly 1,000 billion yuan, an increase of 40 percent over the previous year; third, the amount of money released will be high, and a total of 150 billion yuan will be released for the whole year, with lending amounting to more than 450 billion yuan; fourth, the inflation rate will be high, for rapid increase in the scale of fixed asset investment will lead to severe inflation, and thus the comprehensive national price index will see at least a double-digit increase, with prices of means of production increasing by over 40 percent. The state has adopted measures to exercise macroeconomic regulation and control over economic development, that is, soft landing measures. Even if they do not damage our province's economic development significantly, they are certain to produce some adverse impact on our provincial economy, especially the industrial economy, because of changes in the overall macroeconomic environment and situation.

### III. Policies and Suggestions

In order to sustain steady development of our province's industrial economy, the following policies and suggestions are hereby put forward:

1. Achieve transformation in two areas. First, the focus of the entire party's work should be truly shifted to economic work, so that there can be concerted efforts to manage well the economy. It is necessary "to concentrate on industry and on climbing another step." Second, transform government's function. All the functional agencies at the provincial headquarters should transform their functions, and focus on serving, guiding, and coordinating the economic development of enterprises supervised by the province.

2. Do a good job of achieving three objectives. First, make intensified efforts to stabilize the bases of development of the industrial economy. In our province the value of output of large- and medium-sized enterprises accounts for over 65 percent of the total value of industrial output of the province, and 80 percent of the profits and taxes, and thus constitutes the "main force." Under the condition of market economy, it is necessary to renounce traditional planned-economy methods, so as to accommodate the needs of the market economy. Achieve diversification in three aspects: A) Have multiple forms of ownership. The main objective is to increase enterprises' vigor by absorbing nonstate funds and using flexible business practices. Vigorously develop collective and cooperative economy, turning enterprises into entities containing assets based on different ownership principles. B) Diversify business practices; that is, components of an enterprise can directly do business with outside actors on the basis of acting as entities, so that responsibility for enterprise operation is further divided, with power being delegated and risks being shared. C) Have multiple management systems. There should be smaller accounting units within an enterprise. Under the precondition of having tasks and



quotas set, management should be carried out on a multi-layered basis, through combining unifying with separating. Second, seize opportunities to develop the growth sectors in the industrial economy. A) It is necessary to do a good job of limiting coal production and promoting coal sales. Especially, from a long-term perspective, it is necessary to do a good job of achieving the transition from coal to electricity, and to make focused efforts to carry out advanced coal processing. B) It is necessary to give full play to the leading role of the Daqing petrochemical industry in the provincial economy, and persist in doing a good job of building a group of large projects, including the 40,000-ton styrene project and the 20,000-ton polypropylene project. C) It is necessary to increase technological renovation input, so as to thoroughly change the look of our province's old industrial bases. D) It is necessary to seize opportunities to nurture such nonstate economic entities as township, collective, private, and foreign-financed enterprises, so that there can be a new breakthrough in terms of increasing the share of such economic entities in the industrial economy. E) Appropriately expand real estate development, so as to stimulate the development of 50 related industries. Sixth, accelerate the construction of various types of development zones, provide zones of different types with different guidance, and be tilted in favor of the key ones, implementing the measures in a step-by-step way. It is necessary to ensure the construction of national and provincial development zones, and give full play to their "accelerator" role in economic development. Third, get out predicaments, and resolve the issue of lagging-behind sectors of the industrial economy. In the light industry, focus on sugar-making; in the textile industry, focus on cotton textiles; in the forestry industry, focus on forest product businesses; in the coal industry, focus on limiting production and suppressing stockpiling; and, in the petroleum industry, focus on processing. Be resolute in leasing, selling, and liquidating small- and medium-sized enterprises which have been making losses for a long time and which are unlikely to stop making losses, so as to achieve rational flow and optimum combination of productive forces.

3. Achieve strengthening in one area, that is, strengthening macroeconomic regulation and control over economic development. First, break down vertical and horizontal barriers, lessen the force of local and sectoral interests, and take account of the overall situation. Because various historical, structural, and other factors, our province's industrial economy has come to be composed of several major sectors, including the coal, state farm, petroleum, and forestry sectors; some of the sectors are directly supervised by the center, and some are supervised by local governments. It is necessary to strengthen the leadership of the provincial party committee and provincial government over economic work, and to intensify the regulation and control exercised by the provincial party committee and provincial government. It is necessary to achieve development in accordance with the province's overall economic development strategy. Second, it is necessary to alleviate the "bottleneck" constraints produced by funding and transportation problems.

## SMALL-SCALE ENTERPRISES

### Regional Imbalance in Liaoning Rural Enterprises

94CE0016B Shenyang LIAONING RIBAO in Chinese  
12 Sep 93 p 3

[Article by staff reporter Guo Yingyan (6753 3467 3601):  
"Large Potential in Backward Regions"]

[Text] Hearing the news that the growth rate of Liaoning's township-town enterprises is 55 percent is really cause for joy. However, from a look at the data put before us we see: in Liaoning the imbalance in the regional development of township-town enterprises is gradually becoming serious, and the slow rate of the development of township-town enterprises in regions that are behind in development is cause cause for anxiety.

In Liaoning's 77 counties (districts) the county (district) with the highest total output value of township-town enterprises was 8.5 billion yuan; and the lowest was several dozen million yuan. Now, the total output value of more than 80 percent of the township-town enterprises in the province is less than 100 million yuan, and the total output value of more than 90 percent of the village-run enterprises is less than 10 million yuan. When the township-town enterprises in underdeveloped regions will take a big stride, and whether their economy can then soar, have become questions that are the focus of everybody's attention.

According to 1992 statistics of relevant provincial departments, the per capita income of peasants in regions in which township-town enterprises are developed could reach 2,000 yuan, but the per capita income of peasants in regions where they are underdeveloped is 16.3 percent lower than that of the average level for the province as a whole. Now, the greater part of the 32 counties in Liaoning that receive financial subsidies are counties in which township-town enterprises are backward, and in the fairly developed counties and districts more than 70 percent of the financial income comes from township-town enterprises. At the same time, in the economically underdeveloped regions, the problem of the burden on the peasants is especially prominent.

It should be admitted that, because of the effect of historical, natural, social, and many other factors, the underdeveloped regions are restricted by ineffective information, lack of talented people, impeded transportation and communication, and other factors; and the objective conditions for developing township-town enterprises are relatively poor. Now, most of the enterprises in these regions are still in the start-up stage. Their product grade is low, their scope is small, their management is crude, their technology is backward, their market competitiveness is poor, and their economic returns are low. There are very few cases of displaying local superiorities to form an enterprise scale. Especially under the pounding of the supernormal development of township-town enterprises in developed regions, the degree of difficulty in stimulating the township-town enterprises in backward regions "to take off" is even greater. The development of township-town enterprises in underdeveloped regions is slow, and one of the reasons is that the scale of investment and credit is too small. For a long time these enterprises have been in a state of "hunger" and "anemia," and have lacked the

reproductive capability for expansion; some of them even have difficulty in maintaining simple reproduction, and in particular the township-village investment and the state's support are utterly inadequate. The gaps in the understanding of some leaders is also a factor causing the slow development township-town enterprises in underdeveloped regions. Influenced by traditional conservative thought, some leaders in charge of agricultural counties solely attend to agriculture, stressing that not attending to it is a dereliction of duty. Actually, behind this kind of thinking is a hidden fear of difficulty about attending to township-town enterprises. The secretary of the party of a certain county hit the nail on the head: "There is little investment in agriculture. Provided the weather is favorable, a bumper harvest in agriculture is certain. We also know that a well-run township-town enterprises can make a lot of money, but its investment is high and there is a risk; if it is not run well, both capital and interest will be lost, and there will be nothing left." In underdeveloped regions there are many county, township, and village cadres who think in this way. During the interview this reporter came to understand that in some counties there are less than 10 village-run enterprises.

Some authoritative figures in Liaoning think that the underdeveloped regions possess considerable potential, and that, provided the level of development of township-town enterprises in these regions reach or get close to the province's average level, major changes will appear in the total scale and overall level of Liaoning's township-town enterprises.

The greater part of the underdeveloped regions have abundant natural resources and plentiful labor power; in them are both grain production bases and the most important ecological protective screens for industrial and agricultural production and the people's life. Many of these regions have abundant agricultural, sideline, and special local products, and have forestry, mining, and aquatic resources. If we make full use of these resources to develop processing industries with agricultural and sideline products as the raw materials, and if we transform the superiority in agricultural resources into a superiority in commodities and effect a processing rise in value, we certainly can cause a big development of the township-town enterprises in backward regions. Moreover, Liaoning is a province in which there is a concentration of heavy industry, and it is richly endowed by nature with a basic environment for the development of township-town enterprises. Liaoning's backward regions can receive the urban industry's "radiation"; and the raw materials and primary products produced by the large- and medium-sized enterprises can, through the township-town enterprises' intensive processing and precision work, and also through the external parts matching of large enterprise, be shifted to township-town enterprises for processing. In addition, regions in which township-town enterprises are fairly developed can shift labor-intensive products and natural resources-type products to backward regions, thereby readjusting the industrial structure. Of course, external causes still must play their role through international causes. If the underdeveloped regions can grasp the opportunity, the pace of development will be accelerated and they will certainly "scale mountains and cross rivers."

## FOREIGN TRADE, INVESTMENT

### Foreign Trade System Reform 'Problems' Noted

94CE0062 Beijing GUOJI SHANGBAO in Chinese  
4 Sep 93 p 3

[Article by Wang Zhisheng (3769 1807 0581): "Problems To Note in Building a New Foreign Trade System"]

[Text] Building a new style foreign trade system suitable to development of a socialist market economy and in compliance with international trade regulations will not only be helpful in accelerating development of China's foreign trade business; it will also play a positive role in promoting the establishment of a socialist market economic system. Comrade Yuan Wenqi [5913 2429 4388], in his "Certain Considerations Regarding Building a New Style Foreign Trade System" (see GUOJI SHANGBAO 30 April 1993 p 3) presented excellent research on building a new style foreign trade system, but I must disagree with his point in the article that China "should change from taking export for earning foreign exchange as the starting point to taking the profits of foreign trade enterprises as the decisive feature." At the same time, I will present in this article my own opinions regarding several problems related to establishing a new style foreign trade system.

#### 1. Reform of the Foreign Trade System Must Adhere To a "Golden Regulation," Meaning That Its Reform Must Be Coordinated

The foreign trade operation and management system is an important component of the domestic economic management system in China, and reform of this system is targeted not just at the inner foreign trade circle, but also at reform of other parts of the domestic economy, making it suit the development of the domestic economy. There are two aspects of reform of the foreign trade system that must be implemented in coordination: First, reform within the foreign trade circle, and second, reform of the foreign trade system must match up with reform of the overall domestic economy. At present, reform of the foreign trade system itself is proceeding by leaps and bounds, and in addition, some reform measures themselves lack coordination and suitability; the major shortcomings of the original foreign trade system are still there. It is due in the main to the lack of differentiation between political and enterprise management, with no unification between responsibilities and rights. In financial matters, the state still takes responsibility for profits and losses, eating from the "big rice pot," and such liberalizing, characteristically foreign trade tendencies as "buying at a higher price" and "selling at a reduced price for competition" are beginning to appear; due to reform of the planned management system, such other areas as the fiscal and taxation systems, the foreign exchange management system, etc., are seriously backward; the foreign trade system is contained in this, bring with it many new problems while the old problems are still unresolved. This has already affected the healthy development of foreign trade. Looking at past experience, after two years of rapid increases in exports in 1980 and 1981, the next several years' rate of increase slowed noticeably. Exports totaled \$21.8 billion in 1982, \$22.4 billion in 1983, and \$24.4 billion in 1984, obviously, a virtual halt to increases. The central government took several responsive countermeasures in September 1984, expecting to alter this standstill

situation, but there was very little achievement. Exports totaled \$25.8 billion in 1985, and \$27 billion in 1986. Foreign trade did not come out of this long, five-year period of fluctuation until the implementation of the contract responsibility system for foreign trade in 1988, as it took for a referent point the experiences of the contract responsibility system in domestic enterprises. So, all the types of foreign trade system reform which are not done in coordination with other domestic economic departments will have negative effects on foreign trade, and even on the entire domestic economy, which will cost us in terms of fluctuations, stagnation, and readjustment.

All enterprise operators like to take seeking "the biggest and the smallest" as their direct goal for enterprise operations, and foreign trade enterprises are no exception. However, the long-time lack of unification between rights and profits in China's economic system is still unresolved, so China's enterprises still have not taken "profit seeking" as their direct goal and decisive motivation for operation. In this situation, to initiate operation of a foreign trade enterprise by "changing from the basic starting point of taking exports as a means of making foreign exchange to making foreign trade enterprise profits the decisive feature," while its economic benefits are more complex than those of domestic enterprises', in my opinion indicates not only a lack of complete understanding of the complicated nature of economic benefits in foreign trade enterprises, but also means a departure from and surpassing of the realities of economic system reform in China. This will definitely take the same disastrous road that too-hasty reform has taken.

## II. The Foreign Trade System Form Must Pay Attention to the Unification Between Macroeconomic Benefits and Microeconomic Benefits in Foreign Trade

The fundamental mission of China's foreign trade must comply with the general mission of the nation. In the current period, economic construction should take economic construction as the central point, working to build a socialist nation with Chinese characteristics. On the one hand, satisfy the demands of social reproduction's ratio relationships by means of exchange of material objects, promoting the comprehensive balance of the domestic economy; on the other hand, achieve value-adding by means of receiving trade benefits from exporting products which have a comparative advantage. In addition, China's foreign trade must adhere to the principle of conducting foreign trade in concert with diplomacy.

Currently, all enterprises in China which own foreign trade authorities are state-owned enterprises (exclusive of "three capital enterprises"). So, in theory, the operational benefits of all foreign trade enterprises are good, as are the macroeconomic benefits of foreign trade. However, under the current system and policy situation, macro- and microeconomic benefits of foreign trade might have contradictions and conflicts, and sometimes, these will be quite violent. When this happens, we should make the macroeconomic benefits of foreign trade primary. The large-scale imports of automobiles a couple of years ago is an example of macro- and microeconomic benefits coming into contradiction and conflict. The State has to take steps to stop this, in order to guarantee the macroeconomic benefits of foreign trade.

Against this background, taking profit-seeking as the direct goal and decisive motivation of foreign trade enterprises means taking "trade profits" as the operational principle of foreign trade enterprises, which will seriously affect the achievement of macroeconomic profits by foreign trade enterprises, as well as being harmful practically.

1. It is unfavorable for correcting unequal economic profits in foreign trade. As everyone knows, due to the complexities of foreign trade economic profits in China, in the current situation, profits and losses do not completely correspond to economic profits in foreign trade. This is because there are many factors which affect profit and loss in foreign trade, that is, systemic factors which are indirectly related to the normal operations of foreign trade, factors of system, policy, structure, and production, as well as foreign trade enterprise operational factors. Moreover, the first several factors have a decisive influence on China's foreign trade profit and loss situation. At present, it cannot be fully determined whether periods when foreign trade enterprises are more profitable are periods of economic prosperity, while periods of more losses are the periods when foreign trade enterprises have losses. In a situation where profit and loss does not completely mean good or bad economic profits for foreign trade enterprises, taking profit-seeking as the direct purpose and decisive motivation of foreign trade enterprises is not a good way of adjusting foreign trade profits which already are seriously unequal.

2. It is unfavorable for improving China's export products mix. As the scale of China's export trade enlarges continuously, there must also gradually be two alterations in the export product mix: "a gradual change from chiefly exporting primary products to chiefly exporting finished products, and from chiefly exporting rough processing to finish processing." With the support of the state's policy guidance and capital, the first change has now been realized, and the state is working hard to accomplish the second. Objectively, China is still in the ranks of the economically backward, developing nations; its industrial finished products, especially its high value-added finished processed products, lack competitive strength in the international market. If foreign trade enterprises take profit-seeking as the direct purpose and decisive motivation for their operations, then foreign trade enterprises must stop exporting non-"comparatively advantageous" industrial products and shift to exporting "comparatively different" agricultural products, by-products, local and special products. If this continues for a long time, we will not only be unable to reach our objective of spurring domestic economic modernization through development of foreign trade; we will also fall into the rut of long-term production and export of agricultural products and by-products, local and special products, and textiles. This is exactly what is hoped for by those Western economists who strongly advocate arranging a nation's foreign trade mix according to "comparative costs."

3. It is unfavorable for accomplishing the technological transformation of China's enterprises and domestic economy. Technological transformation of enterprises and the domestic economy is one of the important missions in accomplishing modernization. For our products to go into the international market, the quality and price of these products must be competitive, which demands that enterprises adopt new techniques and technologies to continuously improve products' functions and quality, and



increase their variety. Participating in international competition positively plays an objective role in spurring enterprises to accomplish technological transformation. But if foreign trade enterprises cease to export industrial products which generally lack competitive power at present, it will seriously damage industrial enterprises' enthusiasm for developing export trade remodeling themselves technologically, and cause losses in China's modernization. Looking at imports, "importing advanced technology to spur currently-existing enterprises to accomplish technological transformation in China" is the primary developmental strategy in China's current import trade; but if profit-seeking is taken as the decisive motivation for operating foreign trade enterprises, it must cause these enterprises to import a great deal of goods with huge price differences between the domestic and overseas markets and high profits. The mid-1980's phenomenon of importing cars on a massive scale occurred with foreign trade enterprise profit-seeking as the motivation, while there was no way of implementing the import strategy of spurring enterprises to accomplish technological transformation through importing advanced foreign technology.

### III. Reform of the Foreign Trade System Should Be Basic, Not Just Temporary Relief

For a long time, reform of the foreign trade system sought only temporary relief, not basic. This created many new problems while the old problems were still unresolved, and put us into a bad situation of going back and forth at a low level of system reform. For instance, we expended considerable time and energy dealing "facing outward by multiple units, creating self-competition by price cutting," but repeated attempts to stop this were unsuccessful; we tried to resolve the problem of disunified responsibilities and rights in foreign trade enterprises by means of "breaking through the three types of iron," and it were forced to stop this because it created even worse problems; we tried hard to encourage foreign trade enterprises to change their operational system, pushing enterprises to the markets, but in a situation where the government's activities were irregular and its role still unchanged, the enterprises had no way of accomplishing alterations in their operational system. Pushing enterprises into the markets while not breaking the chains on their necks is like pushing a person whose hands and feet are tied. In the process of foreign trade system reform, we deal with "results" which formed into "causes" in the highly concentrated planned economy system. That foreign trade enterprises cannot increase at the same pace between creating foreign exchange and profits is not because foreign trade enterprises take "exporting to make foreign exchange as the direct purpose of operations," but is rather due to the long-term existence of the planned economic system. Reforming the planned economic system and constructing a market economic system is the goal of economic system reform in China, and it is only when we have grasped this "fundamental" that conduct of the foreign trade system reform will basically resolve the various kinds of "persistent ailments," and foreign trade enterprises will increase at the same pace between earning foreign exchange and profits.

Generally, pursuing the highest profit and lowest cost is the end-result of any enterprise's operations, and is in accordance with economic laws. But, if we do not take into account the special characteristics and complexities of

China's foreign trade, simply taking "profit-seeking" as the direct purpose and decisive motivation for foreign trade enterprise operations is not an available option, and could have quite serious results.

### Regulations on Machinery, Electronic Imports Noted

94CE0082A Beijing JINGJI CANKAO BAO in Chinese  
11 Oct 93 p 1

[Article: "A Significant Step in the Reform of China's Import-Management System—the Promulgation of the Interim Regulations on the Management of Machinery and Electronic Imports"]

[Text] With the approval of the State Council, State Economic Relations and Trade Committee Chairman Wang Zhongyu [3769 1813 4416] and MOFTEC Minister Wu Yi (f) [0702 0308] jointly signed in the past few days Decree #1, promulgating the "Interim Regulations on the Management of Machinery and Electronic Imports."

A State Economic Relations and Trade Committee official gave the following briefing: Since reform and opening, China has been actively importing advanced foreign technology and equipment. We have spent over \$150 billion in foreign exchange to import machinery and electronic products, which has had a positive impact in expanding our foreign trade, upgrading our domestic industrial technology, promoting technological progress, and enhancing our national economic might. In the last two years, China's machinery and electronic imports have achieved a high growth momentum. In 1992, we imported \$34.88 billion worth of machinery and electronic products, up 37.9 percent from 1991, with such imports for the first eight months of 1993 up again 49 percent over the same period in 1992, exceeding our overall import-trade growth by 22 points. In light of domestic and foreign developments, our past regulations on the management of machinery and electronic imports are no longer suited to our current needs for faster reform and opening and establishment of a socialist market economy, as well as being out of line with GATT regulations and international practice, so need to be reformed.

The promulgation with State Council approval of the "Interim Regulations on the Management of Machinery and Electronic Imports" is a significant step in the reform of China's current import-management system. The "Interim Regulations" have 33 articles in eight sections, and will go into effect on 1 January 1994.

The "Interim Regulations" are based mostly on our need to develop a socialist market economy, live up to GATT regulations, and act in line with international practice, while providing reasonable protection to our domestic industries. Their general principle is to make a comprehensive use of economic, technical, and legal means and the necessary executive measures to strengthen our macroeconomic regulation and control, by controlling well the few key commodities, streamlining administration, devolving authority, and simplifying formalities, in order to gradually establish through reform a scientific and efficient system of macroeconomic regulation and control for imports that has distinct Chinese characteristics while being in line with international practice.

## TRANSPORTATION

### Communications Reform Situation, Tasks

94CE0063A Shanghai ZHONGGUO GANGKOU [CHINA PORTS BIMONTHLY] in Chinese No 4, Aug 93 pp 7-9

[Article by Wu Zhou, affiliated with the general office of the Communications Ministry: "The Situation Regarding Transportation Reform in China and the Tasks Involved"]

[Text] After Deng Xiaoping made his southern inspection remarks, we in the transportation system have made four major moves in regard to the reform and opening up:

The first move was to implement the spirit of the central work conference held in September 1991, putting forward 30 ideas on managing well the large- and medium-sized enterprises supervised by the ministry as well as ideas on managing well local transport enterprises.

The second move was to implement the spirit of Deng Xiaoping's southern inspection remarks and the spirit of the instructions issued by the CPC Central Committee and the State Council, adopting 25 measures to deepen the reform, expand the opening up, and accelerate the development of the transportation sector.

The third move was to put forward the transportation system's implementing measures as well as ideas on implementation after the State Council issued the Provisions for the Transformation of Operating Mechanisms of All-People-Owned Industrial Enterprises.

In the fourth move, our ministry, after the 14th CPC Congress, put forward preliminary ideas on, and measures for, nurturing and developing the transportation market on the basis of focusing on finding ways to make transportation meet the needs of the establishment of a system of socialist market economy.

As a result of the abovementioned four major reform and opening-up moves, the reform and opening up in our transportation system have been gradually deepened, and involve reforms in many areas, including enterprise reform, transportation reform and opening up, the reform and opening up of the construction of transportation infrastructure, financial system reform, scientific and technological education reform, personnel system reform.

With regard to enterprise reform, the main step taken was to formulate the measures to implement, and ideas on implementing, the Provisions for the Transformation of Operating Mechanisms of All-People-Owned Industrial Enterprises issued by the State Council, on the basis of centering the effort on managing well large- and medium-sized enterprises and on implementing the Provisions for the Transformation of Operating Mechanisms of All-People-Owned Industrial Enterprises issued by the State Council. Currently, the operating mechanisms of transport enterprises are being gradually transformed, and various reform measures are being gradually implemented. Transportation agencies in the localities are actively transforming their function, and have done some practical work in an effort to make enterprises acquire, effectively, management autonomy in 14 areas. The state's preferential policies toward state-owned large- and medium-sized enterprises have mostly been implemented. The work of

organizing enterprise groups is proceeding smoothly. The China Ocean Shipping Group and the China Yangtze Shipping Group have now been established. The China Transport Group is in the process of being established. In the area of enterprise reform, stock-system trial operations have also begun. Under the current plan, the Shanghai Sea Transport Bureau, Shanghai Port Machinery Plant, and Shanghai Yangtze Shipping Corporation will serve as trial points and take the lead, so as to accumulate experience which can help deepening reforms in the next stage.

With regard to the reform and opening up of the transportation sector, we have, with focused efforts, studied and raised the following issues.

First, striving to handle well the relationships between transportation plans and market, and vigorously nurturing and developing transportation and construction markets on the basis of proceeding from the needs of the state's macroeconomic regulation and control and under the preconditions of doing a good job of "supporting one thing and ensuring three things" and of fulfilling annual aggregate transportation plans and plans on specific categories of goods. While making an effort to tackle the relationships between plans and market, we are gradually reducing the scope of planned transportation and expanding the scope of market regulation; we are trying to reduce the number of transport prices set by the state as much as possible and increase the number of floating prices and market-regulated prices. In recent years the Communications Ministry and the State Price Bureau have discussed this issue, and have taken a step forward in deregulating prices. It has been decided that prices and port use fees in the planned transportation sector can be adjusted in accordance with changes in prices and exchange rates, that transportation prices and port use fees in the market-regulated transportation sector are to be regulated by the market, that the Communications Ministry will determine how much seasonal transportation prices should change, and that transportation prices in the tourism sector and at the regional deregulation trial points are to be regulated by the market. In this way there will be greater price fluctuations, and more prices will be regulated by the market. As the amount of means of production whose supply is governed by plans is being gradually reduced, there will be corresponding decreases in the amount of means of production transported according to plans; and in the end there will occur a situation where the transportation of such goods is completely regulated by the market. Therefore, in the process of nurturing and developing the transportation market, the Communications Ministry is intensifying its efforts to reform the work of arranging the transportation of goods for port and shipping enterprises which the ministry supervises directly or over which the ministry joins others in exercising dual leadership.

Second, striving to resolve issues of macrolevel regulation and microlevel opening up in the sphere of transportation. With regard to transportation regulation, the main matters over which it is now necessary to exercise macrolevel regulation and control are: those of approving the opening of shipping companies, foreign-financed enterprises, some transprovincial and transnational transport lines and routes, and the total increase in domestic transprovincial water transport capacity. Microlevel opening up mainly

consists in encouraging units and individuals with the necessary conditions inside and outside the sector to engage in transport business, and removing restrictions on the approving of the opening, and registering, of transport enterprises, on changes in transport capacity, on some lines and routes, and on local transportation. Perfect the market system and nurture market organizations. Make further efforts to regulate, in a standardized manner, the construction of transportation projects which are already in the market-based sector; enhance the building of the legal system governing transportation, perfect market rules, do a good job of managing the market by using economic, legal, or even necessary administrative means, and lead the market to develop in a healthy manner, so that enterprises, units, and individuals already in the market would be able to compete on an equal basis. With regard to directly supervised water transport, efforts have been made to organize a visible market which links together cargos, ships, and ports in a balanced way through the reformed monthly balancing meetings; at the same time the construction of the infrastructure of a visible market has also been enhanced. The Communications Ministry has decided to build 48 major highway hubs. The purpose is to make those major hubs centers, and give play to their radiating role, so as to organize a nationwide transportation market.

In addition, it is also proper to consider building a visible market governing the transportation of important means of production, such as the shipping of coal; it is proper to organize trading markets which are mainly located at ports, so that shipping companies and their customers can meet face to face (or through shipment agents).

We are conscientiously studying these issues, and are exploring ways to exploit the strengths of both plan and market means in the process of nurturing and developing the transportation market as well as the scope, degree, and form of combining the two kinds of means.

With regard to the reform and opening up of the construction of transportation infrastructure, the main efforts made in the recent years have included perfecting the bidding-inviting and bidding methods relating to the construction of transportation infrastructure, revising estimated project costs, and having the project supervision system function on a trial basis. At the same time, funds for the construction of transportation infrastructure have been gathered in many ways, such as through stock-purchasing fund raising, the issuing of stocks and bonds, land management and development in conjunction with highway projects, course dredging, and port construction, granting bidding-based licenses for operations on highway passenger routes, and allowing compensated use of highway passenger routes. With regard to expanding opening up, some preferential policies have been adopted to attract foreign capital, so as to gather funds for the construction of transportation infrastructure; the policies mainly consist of measures to encourage Chinese-foreign joint ventures, exclusively foreign-financed construction, and the running of berths, dock areas used exclusively by cargo owners, and exclusive courses, highways, bridges, and tunnels, as well as measures to allow foreign businesses to lease dock areas and run loading and unloading operations.

With regard to the reform of the financial system, the main efforts have included gradually introducing the practice of separating taxes from profits during the second-round contracting out of enterprises directly supervised by the Communications Ministry. After consultations with the Finance Ministry, it has been decided that beginning in 1993 the port, shipping, and industrial enterprises directly supervised by the ministry would pay a uniform 10 percent income tax, and be exempted from the energy, transportation, and budget adjustment levies, while the practices of repaying debts after paying taxes and of fulfilling profit-remittance quotas after paying taxes would be introduced on a trial basis. At the same time, in order to link up with the world market, units in the transportation system are actively making preparations for the reform which will introduce a new financial system, and the relevant measures will be put into effect on the day when the new financial system is put into operation.

With regard to reform in the area of transportation-related science and technology and education, in June 1992 the ministry put forward some ideas on accelerating the reform of the science and technology system governing the directly supervised units of scientific and technological research, and adopted a series of rules on the entry of units of transportation-related scientific and technological research into the main economic-construction battlefield, on developing high-and new-technology industries and technical consulting services, on gradually forming economic entities which integrate scientific and technological research with production and business operations, and on increasing the capability for the sustained development of transportation-related scientific and technological research. In the past two years, the ministry approved, separately, the plans of making the Shanghai Merchant Marine Institute and the Dalian Merchant Marine Institute comprehensive internal-reform trial points. In early 1993 the ministry issued the Circular on Ideas on Deepening the Reform of the Regular Institutions of Higher Education in the Area of Transportation and on Expanding Those Institutions' Management Autonomy. Transportation colleges have thus acquired greater autonomy with respect to adjusting disciplinary composition, adding supporting disciplines, the enrollment and placement of students, providing nondegree education, independently raising funds for schools' budgetary and extrabudgetary expenses, determining pay scales, determining and adjusting the number of professional and technical positions, granting professional and technical ranks and hiring professional and technical personnel, and approving the going abroad of those who go abroad at their own expenses. The abovementioned measures and regulations have produced a prominent promoting effect on the deepening reform in the area of transportation-related science and technology and education.

With regard to the reform of the personnel and labor system, the main efforts made have included delegating cadre management authority; expanding enterprises' autonomy with respect to granting professional and technical ranks and hiring professional and technical personnel; adopting the system under which cadres can flow and can be both promoted and demoted; gradually perfecting the enterprise efficiency-linkage system; putting forward the overall plan on reforming the wage system



governing the public-institution units supervised by the ministry; and putting forward preliminary ideas on reforms which will introduce an enterprise insurance system. These reform measures have produced supporting and promoting effects on reforms in other areas.

In order to ensure the successful implementation of the various reform and opening-up policies and measures, we have also enhanced the construction of socialist spiritual civilization. The ideas guiding us in this respect are very clear. In regard to building socialist spiritual civilization, first, we have made focused efforts to improve the conduct of office workers; second, we have made focused efforts to promote the improvement of party style; third, we have made focused efforts to promote clean government; and, fourth, we have made focused efforts to improve the conduct of people working in the sector. Through carrying out activities of learning from Lei Feng and Yan Libin and promoting conduct of a new kind in the sector, we have promoted correct tendencies and suppressed erroneous tendencies, thereby ensuring that the reform and opening up can proceed smoothly.

The issue of transforming government's function has now been put on our agenda, and the reform of the ministerial-level bureaucracy has started. As pointed out by Premier Li Peng in the Report on the Work of the Government, the Communications Ministry will be retained, but has to transform its function, streamline its bureaucracy, and cut its personnel. It is necessary, through the transformation of function, to turn the Communications Ministry into a highly efficient agency which promotes the development of the transportation market, instead of a constraining factor. The ministry should strive to accommodate the functioning mechanisms of a market economy through self-reform.

In 1993 China's transportation system faces heavy tasks in relation to the reform and opening up as well as transportation production and construction. Highway capacity, waterborne passenger transport capacity, and ports' handling capacity will continue to increase. In this respect, coastal coal shipping capacity and the capacity to handle foreign trade goods will increase substantially over last year. The agencies in charge of transportation at all levels should enhance macrolevel regulation and control, and do a good job of organizing and coordinating work and of providing services, so as to ensure that the various production stages are linked together and that production proceeds on a highly efficient basis in all the stages. Transport enterprises should be market-oriented, exploit their potentials, enhance management, ensure safety, and strive to fulfill or overfulfill this year's transportation production tasks, so as to provide effective guarantees in the transportation area for the reform and opening up and for economic development.

Accelerating the construction of transportation infrastructure is the key to alleviating transport shortages and solving the present transport "bottleneck" problems. Transportation agencies at all levels should continue to adhere to the principle of "having the people develop and run the people's transportation," closely rely on the support of local governments and the broad masses of the people, fully exploit all social sectors' enthusiasm for developing transportation, and gather funds at multiple levels and through multiple channels so as to increase transportation inputs; it is also necessary to concentrate

the gathered valuable funds on doing a good job of accomplishing several big tasks. It is necessary to enhance management, carry out organizational work carefully, and proceed with construction work carefully, so as to complete and put into operation a bunch of new highway and port construction projects and their supporting and safeguard facilities on the basis of ensuring high speed, high quality, and high efficiency.

The basic direction of transportation reform should be the establishment of a system of socialist market economy. Consequently, it is necessary to break down barriers between regions and between sectors as well as sectoral monopolies, and to have a completely open domestic transportation market. It is necessary to gradually open up the domestic transportation market in accordance with international practices, so that the domestic transportation market can be linked up with the international transportation market. With regard to the water transport enterprises directly supervised by the ministry, it is necessary to further expand the scope of market regulation, so that planned transportation can gradually change into market-regulated transportation. It is necessary to reform the system of market-regulated transportation prices, so as to give full play to the lever role of the law of value in regulating transportation production and coordinating transportation supply and demand. It is necessary to perfect market rules, and enhance the sectoral regulation of the market, so as to ensure that the transportation market can grow and function in a lively and orderly manner. We should, on the basis of taking account of the reality in the transportation sector, conscientiously and comprehensively implement the Provisions for the Transformation of All-People-Owned Industrial Enterprises promulgated by the State Council. In accordance with the principles of transforming function, separating government from enterprises, streamlining bureaucracy and delegating power, and doing a good job of providing services, agencies in charge of transportation at all levels should unconditionally grant enterprises autonomy, in a full manner, in areas in which enterprises should have autonomy according to the provisions. Transport enterprises should treasure the state-granted autonomy very much, do a good job of utilizing such autonomy, and flexibly and fully utilize such autonomy, by doing a good job of reforming the personnel, labor, and distribution systems and improving fund management; they should establish both stimulating mechanisms and constraining mechanisms, and adhere to the policies of being specialized in the major business and developing sideline businesses, developing more ideas on business, vigorously carrying out diversified business operations, and comprehensively raising economic efficiency, so that they can get firmly established and expand their territory in an environment of market competition, thereby doing a better job of playing the backbone role in the transportation market.

To get transportation developed as soon as possible, it is necessary to expand the opening to the outside world. We should continue to develop Chinese-foreign joint ventures, cooperative transport enterprises, and to introduce advanced technical equipments and management experience to an appropriate extent; use more flexible ways to attract foreign capital so as to accelerate the construction of transportation infrastructure; and encourage Chinese

transport enterprises with the necessary conditions to develop international highway and water transport operations, to serve as contractors of foreign and overseas projects, to carry out tertiary industry operations, and to actively participate in the competition on the international transportation market and labor service market. It is necessary to persist in centering work on transportation production and transportation construction, enhance and improve ideological and political work, and do a good job of carrying out work in the various areas on the basis of building a better image and improving qualities and service standards, so as to accomplish the great task of reform and opening up which history has given us.

## AGRICULTURE

### Shaanxi Reports Sugar Shortage

94CE0085Z Harbin HEILONGJIANG JINGJI BAO  
in Chinese 21 Oct 93 p 3

[Summary] From July to October, sugar shortages in Shaanxi Province are estimated at 17,000 tons. During this pressing season Shaanxi sugar supplies declined by 30,000 tons from the same period in the previous pressing season. Shaanxi is a sugar sales area, and sugar supplies rely on transfers from other provinces.

### Article Questions Potassium Fertilizer Stockpiling

94CE0080A Beijing JINGJI RIBAO in Chinese  
8 Oct 93 p 1

[Article by Zhang Zicheng: "Why Has Domestically Produced Potassium Fertilizer Been Stockpiled?"]

[Text] China has as much as 1.5 billion mu of potassium-deficient farmland, and thus it is necessary to import about 1 million metric tons of potassium fertilizer each year. After 10 years of preparations and three years of pioneers' hard work, the state has finally built China's largest sylvite production base on Chaerhan Hu at Golmud City at the foot of Kunlun Shan, thereby filling a blank in China's potassium fertilizer industry. The first phase of the Qinghai Potassium Fertilizer Plant project, in which 630 million yuan has been invested and which is to produce 200,000 metric tons of potassium fertilizer each year, officially began operation this year. Because of that, with excitement, this reporter came to Qaidam Pendi, intending to write a new chapter depicting pioneering work.

However, what this reporter saw was the reality of stockpiling of potassium fertilizer. The first thing that one would see was piles of bags of potassium fertilizer, as white as snow, which was unable to be sold. With anxiety, pioneers like the plant's trade union chairman, Xia Tongxue, said that 70,000 metric tons had now been stockpiled, with the first phase capacity to produce 200,000 metric tons. How to handle, they asked, 1 million or so metric tons which will be produced each year when the second phase of the project is completed.

### Unequal Competition

Has domestically produced potassium fertilizer been stockpiled because its quality is inferior to that of the imported product? No. The first phase of the Qinghai Potassium Fertilizer Plant project used internationally

advanced salt-pan methods for producing carnallite, and employed hydraulic and water-transport techniques. It imported advanced hydraulic equipments from the United States, and met the long-cycle and stable-production requirements, and product quality is good. The field effect experiments conducted by the competent department in the Agriculture Ministry and the Hubei Soil and Fertilizer Center to compare imported potassium fertilizer and the "Yanqiao" brand potassium fertilizer produced by that plant shows that Qinghai's "Yanqiao" brand potassium fertilizer is slightly better than imported potassium fertilizer in terms of per mu cost input, and Qinghai's potassium fertilizer is the same as imported fertilizer in terms of fertilizing effect according to comparative analysis of the effect of the same per mu nutrient input; thus Qinghai's potassium fertilizer can substitute for imported red and white potassium fertilizer.

According to investigations, the stockpiling of domestically produced potassium fertilizer is the result of the unequal competition with imported potassium fertilizer on the market. In the past several years, China has imported approximately 2 million metric tons of potassium fertilizer from countries like Canada, Jordan, and Israel each year, based on considerations of such factors as the need to support agriculture and the need to accommodate peasants' purchasing power, buying and selling prices are in an inverted order, and the state has provided subsidies. But domestically produced potassium fertilizer has not enjoyed such subsidy "benefits." Take the example of 1991. With fiscal subsidies, imported potassium fertilizer was sold by agricultural production means companies at the price of 350 yuan per metric ton (according to statistics, in the past 10 years potassium fertilizer's CIF price has been \$117.94 per metric ton). In May this year imported potassium fertilizer's trading price at the Shanghai Exchange was 720-750 yuan per metric ton; but, if just cost and freight are included, the price of potassium fertilizer produced by the Qinghai Potassium Fertilizer Plant would be over 750 yuan per metric ton. Thus, naturally, domestically produced potassium fertilizer is not competitive against imported potassium fertilizer. Presently, the Qinghai Potassium Fertilizer Plant has cut the price to the cost price level, but its product is still not selling well. In addition, there are also such difficulties as the uncertainty about the availability of railway cars. As a consequence, cadres and employees of the Qinghai Potassium Fertilizer Plant are very worried; they not only worry about the inability to pay employees, but, more importantly, also fear that after the completion of the second phase of the project the state will suffer even greater losses.

The second phase of the project is a joint venture with Israel; the construction conditions are ripe, and preparations have been completed. If the state gives approval and if work starts this year, then in 1997 trial operations can be carried out and production can begin. By the year 2000 China would be able to produce 1.1 million metric tons of potassium fertilizer each year, and would thus be able to satisfy half of the domestic demand for potassium fertilizer.

### How To Solve the Problem

Leaders and the masses at the Qinghai Potassium Fertilizer Plant do not want the state to give special considerations. In order to protect and develop national industry,

they only demand that the competent agencies apply the same subsidy policy toward both imported potassium fertilizer and domestically produced potassium fertilizer. If imported potassium fertilizer continues to enjoy subsidies, then domestically produced potassium fertilizer should also enjoy state subsidies. It is also proposed that such subsidies should not be given to those working in the circulation phase, but to peasants. According to a source, although the state has given out huge amounts of potassium fertilizer subsidies, the proportion given to peasants is very small. An alternative is that all subsidies are abolished. In this way domestically produced potassium fertilizer may be able to compete with imported potassium fertilizer under the condition of equality. When discussing this subject, several generations of builders of the potassium fertilizer base also expressed the hope that potassium fertilizer would be covered by the state's mandatory transportation plans, arguing that the railway sector should ensure the transportation of such an important agriculture-supporting material.

### Heilongjiang Farmer Income Increases

94CE0085Y Harbin HEILONGJIANG JINGJI BAO  
in Chinese 21 Oct 93 p 1

[Summary] According to a survey of 2,240 rural households in 28 cities and counties in Heilongjiang Province, during January to September 1993, per capita cash income of farmers was 443.82 yuan (excluding income from savings and loans), an increase of 72.54 yuan, or 19.5 percent over the same period in 1992. From January to September, cash income from farm product sales was 242.12 yuan, an increase of 63.40 yuan, or 35.5 percent over the same period in 1992.

### Grain Production Problems in Shaanxi

94CE0083A Beijing ZHONGGUO NONGCUN JINGJI  
[CHINA'S RURAL ECONOMY] in Chinese  
No 8, 20 Aug 93 pp 28-30

[Article by Bai Zhili (4101 1807 4409), Wang Qing (3769 7230), Lai Guochao (0171 0948 6389), Shaanxi Provincial Agricultural College: "A Careful Appraisal of the Grain Problem in Shaanxi Province"]

#### [Text] 1. Assessment of Errors in Shaanxi Grain Statistics

After the start of reform and opening to the outside world, we have had no clear knowledge of our actual grain supply capacity, therefore erred in our statistical data on production, and our consumption figures too were false. As a consequence, we had no accurate control over some basic supply-demand conditions, a fact which, in turn, reduced the scientific nature and factual consistency of our policy decisions. According to renewed monitoring, grain production statistics for Shaanxi Province were 5 to 10 percent below actual grain production: during the Seventh Five-Year Plan period the province was self-sufficient in grain, with even a small surplus.

A) Statistical data on the cultivated area and on acreage under grain were seriously at variance with actual conditions. As to the 1985 figure for cultivated land, statistics showed 3.627 million hectares, while the figure was actually 3.522 million hectares, according to a region-by-region agricultural investigation. The difference between the two

figures is somewhat over 52 percent. As a result of it, the area reported as sown to grain was also 10 to 25 percent less than in actual fact, and this had a direct effect on the productivity figure for grain production.

B) Total grain production, as reflected in the level of output of animal by-products, was by somewhat over 7 percent higher than the statistical data. In 1990, Shaanxi produced 468,000 tons of meat, 184,000 tons of eggs, 212,000 tons of milk, and using a rather high conversion rate for the rate of return from animal feed, grain for animal feed was 2.095 billion kilos, while the statistical figure only showed 1.35 billion kilos, i.e. a difference of 745 million kilos between the two figures, which was 7.1 percent of that year's total grain production.

C) According to a 1992 computation based on the household investigation by the provincial rural investigation team, Shaanxi's total grain production was 11 billion kilos, or 6.6 percent more than the 10.32 billion kilos of the statistical figure.

D) Shaanxi's grain production during the Seventh Five-Year Plan period was 50.57 billion kilos, and social consumption was 48.05 billion kilos, leaving a surplus of 2.53 billion kilos, or an annual average of 510 million kilos above consumption. To also include import-export figures, the imported amount was 2.74 billion kilos as against 1.99 billion kilos of exports, showing another surplus of 750 million kilos, or an annual average of 150 million kilos imports over exports. However, during the Seventh Five-Year Plan period, Shaanxi also shipped out of the province an annual 35.349 million kilos of meat, which would convert to 120 million kilos of grain. In 1992, 1.4 billion kilos of grain were sold at peasant markets, of which 30 to 35 percent—about 400 to 500 million kilos—were sold to outside the province.

Under the conditions of planned economy, when the policy of "each responsible for own finances, each operating on own responsibility" was being enforced, grain brought into the province according to the provincial grain allocation plan could obtain a subsidy from the central government, and Shaanxi brought in in this way about 350 million kilos of grain per year, which meant a saving for local finance of over 200 million yuan. It enabled, at the same time, to make adjustments in the varieties, which was beneficial, so that anyhow bringing in grain was not at all due to any shortage of grain.

The amount of grain in stock in Shaanxi Province by far exceeded the international food security norm and also China's food security rate. In recent years, grain in stock in Shaanxi, every year at the end of the "grain year," was 2.35 billion kilos, grain held in stock by peasants was about 4.6 billion kilos, making a total grain reserve of 6.95 billion kilos. This amount of grain reserve, was 3 to 3.3 times higher than the international food security norm, which prescribed a reserve of 17 to 18 percent of consumption. It was 1.2 to 1.9 times higher than China's reserve rate, measured against a three to four month's consumption.

#### 2. Grain Supply-Demand Tendencies in Shaanxi Province

A) Changes of Landslide Proportions Unlikely in Shaanxi's Total Grain Production



During the 14 years since the Third Plenum of the 11th CPC Central Committee, because of the adjustments in rural land relations, and due to improvements in the agricultural infrastructure and developments in S&T, the overall capacity for grain production has gone up steadily. Total grain production in 1985 was 9.52 billion kilos. In 1990 it reached 10.71 billion kilos, and was 10.11 billion kilos on an annual average during the period of the Seventh Five-Year Plan. In 1992, when draught affected large areas north of the Weihe River, and large areas of the central Shaanxi plain were inundated, total grain production still reached 10.3 billion kilos. Besides, from 1980 to 1992, there had been seven years of increased grain production and five years of declines in grain production. The amounts of increased production were 3.1 times the amounts of production declines, so that on an annual average there had been 230 million kilos of net production increases. In 1985, when the largest production decline occurred, production was 720 million kilos, and in 1982, when the largest production increase occurred, production was 1.86 billion kilos. If we forecast according to the levels of increases in the past and according to production increases after the eighties, grain production in Shaanxi Province could reach 12.3 to 12.8 billion kilos by the year 2000.

#### B) Social Consumption of Grain To Increase Steadily

In 1981, social consumption of grain in Shaanxi Province amounted to 7.6 billion kilos and rose to 9.35 billion kilos in 1990. The average annual net increase of 190 million kilos was smaller than the increase in grain production during the corresponding period. Computing the average for the period from the Sixth to the Seventh Five-Year Plan, the annual net increase in social consumption was 180 million kilos. According to these figures, the social consumption of grain in Shaanxi Province will reach from 11.15 to 11.25 billion kilos by the year 2000. A special feature of the social consumption of grain is its gradual, orderly increase, closely related, furthermore, to the rate of economic development. This appears to make it impossible that there will be a sudden jump in consumption. By the year 2000, 11.5 billion kilos would be the upper limit for social consumption of grain in Shaanxi Province.

#### 3. The Dispersed Way of Production by Peasant Households Will Contribute Greatly to the Steady Increase of Grain Production

Grain produced by peasant households is of five categories: grain for own consumption, grain sold under contract, seed grain, conversion grain, and grain sold in the market. The first three categories account for 80 to 90 percent of the grain production by peasant households; they are of a rigid character. Even in years of natural disaster, when the peasants will sacrifice all economic benefits and merely strive to produce whatever the soil will produce, they will still ensure production of this part. Although there is much elasticity in the latter two categories of production, their proportion is very small, only 10 to 20 percent, and as such cannot be the cause of large ups and downs in the total grain production. Grain production is also a fairly steady component of agriculture, and as peasants are comparatively poor, and little risk-inclined, they will generally not lightly reduce or abandon grain production before they have found some other steady and highly profitable endeavor. Although much energy was expended in the

eighties on structural readjustment, the proportion of acreage of grain crops and cash crops as compared with other crops has always fluctuated at around an 85:15 rate. Agricultural production is greatly affected by natural factors, and peasants have submissively endured for thousands of years, and are therefore most eagerly interested in precautions against natural calamities. The natural conditions that are growth-sustaining demand that crops must fit local conditions, as only then can high yield, high production, and superior quality be expected. This is the reason why agricultural production differs by regions. In addition, there is the respect for time-honored practices and the cautious nature of peasants at their level of general and technical knowledge which gives the system of agricultural cultivation a relatively steady character.

The period of grain production is comparatively short, and adjustments are easy if made in good time. Generally speaking, the grain production period extends over half a year, the longest also only over the whole year. Under the conditions of market economy, peasant households will frequently shift in the use of their land as between grain crops, cash crops, and other crops, and these shifts will in future coincide with changes in commodity market prices. When grain prices are comparatively low, peasant households may shift to cash crops or other crops, and once market grain prices will go up again, cultivation during one production period will quite naturally revert to the grain crop.

#### 4. New Concepts on Grain Development

As far as the people's living standard is concerned, regardless of whether consumption is high or low, everything bases on grain consumption and grain conversion. Presently, the main item of consumption of the Chinese people is grain. Every day every person gets his/her calories and protein to only 10 percent from meat, while his/her per capita grain requirement is somewhat over 300 kilos. In Western countries, meat, eggs, and milk are primary foodstuffs; each person each day gets his/her calories and protein to 30 to 40 percent from meat, while the per capita grain requirement is somewhat over 500 kilos. Generally speaking, the people's living standard gradually rises in the wake of economic development, there is no reversal in this development. This kind of rise demands of course that grain production too will continuously increase. During the transition from planned economy to market economy, grain production in particular deserves to be placed in a strategic position. The issue from now on will be: to meet the demands of the market economy, the transformation of "grain agriculture" into "commodity agriculture" and highly efficient, high quality large-scale agriculture, requires as its foundation that overall grain production capacity be advanced at a steady pace.

Large exports and large imports of grain would not be the right policy for Shaanxi Province. The objective, as far as grain is concerned, must not be to strive for complete self-sufficiency, but a certain sound degree of self-sufficiency should be achieved. Grain is important, but it is not necessarily required that each province be completely self-sufficient, and also not necessary that every household must grow grain. A strategy of self-sufficiency in grain may, to a certain degree, fetter the peasants hand and foot, inhibit diversification, and hamper the development

of village and township enterprises. However, faced with a serious population pressure, and relying on large exports and large imports of grain being an unrealistic course because of limited transport facilities and limited financial and material resources, small amounts of supplementary supplies and allotments may be in order. In a nationwide survey we see that the resources available and economic development have led to a steady formation in China of preferential grain producing regions. So we have the three-river plain of North China as preferential area for the intense production of corn and soya beans, South China and the middle and lower reaches of the Changjiang as preferential area for rice, and the loess plateau of the Northwest as preferential area for wheat and other food grains. As far as Shaanxi is concerned, the central Shaanxi plain has already established itself as a large-scale production area of wheat and corn, the arid plain north of the Weihe River is producing high-quality wheat, the South-Shaanxi region is producing rice and corn, and the North-Shaanxi region is producing sundry grains of high quality. Self-sufficiency in grain must therefore embrace the concept of the large market, using available resources to develop local superiorities, in order to achieve high yield, high quality, and high efficiency. As far as the provinces adjacent to Shaanxi are concerned, per capita grain production in 1990 was: in Hebei 372.2 kilos, in Shanxi 340.6 kilos, in Inner Mongolia 452.7 kilos, in Henan 395.7 kilos, in Hubei 460.6 kilos, in Gansu 308.0 kilos, and in Ningxia 415.1 kilos. With the exception of Gansu, grain production rates in all other provinces were higher than in Shaanxi; this is the material foundation for regulatory activities within the large market. Actually, Shaanxi's grain shortage districts are all along its borders, for instance, in some of the counties in Yulin and Shangluo Prefectures, and it is more economical for them to import grain from adjacent provinces than obtaining it from the central Shaanxi plain. At the time of the 1993 Spring Festival, Shangluo Prefecture was short of grain by 2.5 million kilos, and the provincial grain department intended to move grain to Shangluo, but the local authorities decided: if the price for grain supplies exceeds 0.38 yuan per jin, it would be better to obtain the grain from neighboring Henan and Hubei, because their price would be around 0.36 yuan per jin, and furthermore easier to ship in. Following the establishment and perfection of the market economy system, the former identity of administrative borders with market borders has been abolished and a nationwide unified large market has already been established. This has eliminated the barriers for free circulation of commodities, with the result that commodities can now freely circulate.

Grain supplies must attain a sound level. Shaanxi is a province that is self-sufficient in grain, with even some surplus. It would be most rational to determine the needful degree of grain self-sufficiency by keeping within the bounds of security and applying the international food security reserve norms. The "bounds of security" require that the amount of grain reserve be sufficient to ensure that demand can be met in case of a natural disaster or under other emergency conditions. That means generally taking as criterion the difference between normal annual production and lowest annual production. The international norm for food security reserve requires a grain reserve of 17 to 18 percent of the total grain consumption. During the period of

the Seventh Five-Year Plan, the average annual consumption of grain in Shaanxi was 9.6 billion kilos. If we figure the average annual consumption during the period of the Eighth Five-Year Plan to be 9.8 billion kilos (this is a very high level), and consider that the largest decline of grain production during the period from 1978 to 1992 was 718 million kilos, Shaanxi's grain reserve, figured according to the formula of the international food security reserve norm, should be 1.64 to 1.73 billion kilos. Taking this as the upper and lower limits for the sound degree of Shaanxi's grain supply, would leave Shaanxi's grain supplies during the period of the Eighth Five-Year Plan in the secure area of between 10.5 and 11.5 billion kilos. If supplies would be below 10.5 billion kilos, there would be no self-sufficiency, if above 11.5 billion kilos there would be an absolute surplus. Grain production in Shaanxi is presently just within this safe level. However, any excessive storage or importing of grain would result in a grain surplus in Shaanxi.

Under the conditions of market economy, a new concept of a guiding mechanism should be established in grain production. When there is a serious shortage of grain, the government employs economic as well as administrative measures to spur on grain production, in order to increase grain supplies, to narrow the gap between grain supply and the demand for grain, to ensure steady improvement of the people's living standard, and to enhance socio-political stability. During the last few decades, following the continuous growth of economic strength, overall grain production capacity continuously rose, and Shaanxi clearly attained a balance in grain supply and demand, and even a surplus grain supply. While this was the case, grain processing and the mechanism and right scale of grain conversion was not carried out, with the result that there occurred an accumulation of surplus, overstocking and waste. As grain becomes comparatively less profitable, this will adversely affect the zeal of the peasants. For this reason, it is necessary, under conditions of oversupply of grain, to steadily raise the productivity of grain cultivation, to diversify, to go in for secondary and tertiary industries, and thereby substantially raise the income level of the peasants, increase consumer demand in the society, especially raise their consumption of meat, eggs, and milk, also to introduce grain processing and to further develop grain conversion, causing, finally, the steady increase in grain production.

Raising the overall grain production capacity, strengthening the mechanism for warding off disturbing interferences. Natural and market factors cause the grain situation to fluctuate incessantly. Whether steady advances can still be achieved despite these fluctuations will depend on the overall production capacity. At present, Shaanxi's overall grain production capacity has, in steady advances, reached 10.8 to 11.1 billion kilos. To further improve this capacity it is necessary to expend some energy on strengthening the mechanism for warding off disturbing interferences. This will mainly comprise action in the following five areas:

A) Undertaking on a large-scale capital construction projects with regard to farmland, leveling slopes and transforming arid land into irrigated land.

B) Doing a good job of soil improvement and fertilization, improving medium- and low-yield fields and increasing fertilization.

C) Creating a new overall situation by the development of high-tech biogenetic breeding and doing a good job of selecting superior varieties.

D) Raising the technological level of the peasants, implementing crop management on a scientific basis.

E) Developing a plant-breeding economy on scale.

Accomplishing the above-stated five large projects and technological measures will make it possible to achieve a steady rise in overall grain production capacity.

### Solving Farmer's Marketing Difficulties

44(1) *China's BEIJING NONGMIN RIBAO in Chinese*  
15 Oct 93 p 1

[Article by Zhan Wu: "Measures To Solve Difficulties in Buying and Selling Agricultural Products"]

[Text] Although the "battle" over agricultural products and the difficulties in buying and selling agricultural products are phenomena in the circulation process, their causes involve the four areas of production, circulation, income distribution, and macroeconomic regulation and control; that is, that the causes include the disconnection between production and marketing, a lack of smoothness in circulation, the disharmony between interests, and the ineffectiveness in regulation. Thus, our idea on dealing with the problem is that we should adopt the policy of promoting equilibrium between supply and demand (or the linking up of production with marketing), of making circulation smooth, of harmonizing interests, and of exercising effective regulation, in order to achieve systematic, coordinated, and comprehensive improvements in the situation regarding the difficulties in buying and selling agricultural products.

**1. Equilibrium between supply and demand or the linking up of production with marketing.** In order to eliminate potentials of "buying difficulty" and "selling difficulty" fluctuations before the production process begins, it is necessary to resolve issues of linking up production with marketing and creating an equilibrium between supply and demand at four levels in a coordinated manner: A) At the macroeconomic level, it is necessary to have an appropriate point at which an equilibrium between supply of and demand for the major agricultural products is to be achieved in the present period and the 1990s, thereby providing a basis for the strategy guiding the effort to achieve an equilibrium between supply of and demand for the major agricultural products. B) At the microeconomic level, make sure that peasants determine production scales on the basis of the marketing situation and sell products before carrying out production. C) Make the relevant adjustments so that the product mix and quality mix are in line with consumer demand. D) Carry out processing and conversion, so as to link together the production and marketing of agricultural products in terms of form, that is, turning surplus primary commodities into finished consumer goods, feed, food, meat, poultry, eggs, and the like through processing.

**2. Smooth circulation.** In view of the five major factors causing buying and selling difficulties in the circulation sphere, namely, the structural problems of rigid price management and monopoly, the underdeveloped state of the market, the backwardness of circulation infrastructure,

the barriers and separation between regions, and the impact of the three fluctuation-magnifying mechanisms in circulation, we may adopt coordinated improvement measures at five levels: A) Reform the circulation system. First, comprehensively lift controls, on a gradual and planned basis, over the five or six major agricultural products over which controls have not yet been entirely lifted; for instance, completely lift controls over grain, cotton, and oil within three years. Second, create a multimodal and multichannel circulation sector which contains actors of different ownership status; especially, encourage peasants to enter the circulation sphere on a greater scale and in an organized way. B) Nurture and perfect a developed market system centered on spot wholesale markets. C) Accelerate the construction of storage, transportation, communications, information, and other infrastructure, so as to alleviate the difficulties in storing and shipping grain as soon as possible. D) Do a good job of harmonizing the interests of the producing and buying regions; the main measure is to resolve the issue of the barriers and separation between regions through economic means. E) Establish and perfect systems of agricultural product reserves and of risk funds and other systems, so as to eliminate the impact of the three fluctuation-magnifying mechanisms in circulation.

**3. Harmonizing interests.** With regard to the buying and selling difficulties caused by the disharmonious interest relationships between regions, mainly between the producing and buying regions, we propose four types of coordinated improvement measures in view of the successful practical experience: A) Producing and buying regions carry out joint economic operations, and organize joint ventures. B) Neighboring provinces and autonomous regions carry out policy, regulatory, and price coordination, and supervise each other's implementation efforts. C) The state makes efforts to harmonize the interests of the producing and buying regions. For instance, in 1992 the state issued a rule that the cotton-buying regions give the producing regions 25 yuan for each metric ton, so as to support cotton production in the producing regions. This was an important first step taken by the center to redress the interest imbalance between the producing and buying regions. And D) organize, and spread the use of, closely integrated transsectoral and transregional economic partnerships which are based on production-supply-marketing integration and trade-industry-agriculture integration and which encompass entities of different ownership statuses.

Spreading the use of the abovementioned measures and carrying out the spreading in a satisfactory manner can prevent the emergence of the fluctuation-magnifying mechanisms produced by interregional barriers and local governments in the circulation process.

With regard to the damages to peasants' interests caused by "selling difficulties" and the "agriculture-harming low grain prices" in the circulation process, it is necessary to adopt the following three coordinated measures, that is, purchasing the major agricultural products at protected prices, and imposing ceilings on prices of means of agricultural production; having more peasants join economic interest communities such as entities based on production-supply-marketing integration and trade-industry-agriculture integration; and making agricultural insurance available on a conditional basis.



**4. Effective regulation and control.** In view of the recent abnormal situation where "selling difficulties" occur when the surplus of agricultural products is not very large and where the "battle over commodities" caused by "buying difficulties" occurs when the shortage of agricultural products is not very large, the core issue is to establish effective macroeconomic regulation and control mechanisms.

To accomplish that, it is necessary to use the state's effective absorbing and discharging mechanisms for regulation to suppress the large fluctuations caused by the difficulties in buying and selling agricultural products, and eliminate the fluctuation-magnifying mechanisms based on activities of enterprises involved and local governments in the circulation process. There are mainly four coordinated measures: A) Establish and perfect systems of special reserves of the major agricultural products like grain, oil crops, and cotton at the national and provincial levels, and purchase products from the peasants at protected prices. The localities can also establish reserves of the major agricultural products which have great impact locally in view of their financial capabilities. B) Regulate imports and exports in accordance with the situation regarding domestic market demand. C) Make the producing and buying regions promote each other's interests and help each other. D) State-owned and collective commerce establishments should play their role as the main channel under the new situation of competition characterized by multiple channels. First, increase the business volume so as to increase the absorbing and discharging capacity for market regulation; second, do a good job of fulfilling the task of keeping special reserves given by the state, regulating the matter in a satisfactory manner.

In terms of their effects on alleviating "buying difficulty" and "selling difficulty" fluctuations, linking up production with marketing is the basis, having smooth circulation is the key, harmonizing interests is the core, and making regulation and control effective is the leader. It is necessary to do the four things together in a systematic and coordinated manner so as to achieve comprehensive improvement. The stubborn disease of "buying and selling difficulties" which has occurred repeatedly over the past decade and more, seriously harming agriculture and the national economy, can be cured. Agriculture and the rural economy are certain to move toward steadier, faster, more coordinated, and healthier development.

With regard to solving the problem of difficulties in buying and selling agricultural products, some other difficulties should also be studied and explored, in addition to the several issues discussed above.

**1. How to develop and perfect the market system centered on spot wholesale markets.** We believe:

**First, in practice it is meaningless to administratively rank wholesale markets.** Whether a wholesale market is local, regional, or national is entirely determined by its capacity for economic radiation in actual economic development.

**Second, in the present stage, it is necessary to put spot wholesale markets for agricultural products in the most important position, and consider them the key targets of nurturing and perfecting efforts.** This is so because of the following: A) At present China's wholesale markets for agricultural products mostly or entirely engage in spot wholesale trading; there are a few forward trading contracts involving small amounts, but the markets are not futures exchanges. This state of affairs is determined by the state of development of China's commodity economy in the present stage. B) The existing wholesale markets for agricultural products which mainly engage in spot wholesale trading have unique strengths in terms of invigorating the circulation of agricultural products, alleviating "buying and selling difficulties," and developing rural commodity economy. And C) China's 200 million separately run small production units now have neither the need nor the ability to come to the futures exchanges so as to ask speculators to share their risks.

**Third, how to fully exploit the strengths of the wholesale markets for agricultural products and to give full play to the role of such markets.** In our view, two things are important: First, under the situation where the wholesale markets are constrained by transportation "bottlenecks," managing well the relationships with the transportation sector is the precondition for brisk trading on the wholesale markets. Second, developing horizontal ties and partnerships between wholesale markets is the main way to exploit the wholesale markets' overall strengths.

**2. How to use special grain reserves flexibly, so that old grain can be replaced by new grain on a constant basis.**

Special grain reserves now total more than 35 billion kg. Basically there is only grain going in, but no grain coming out; thus it is difficult to continue the situation. The State Council leadership has already called for the flexible use of grain reserves, but the idea has not been implemented. In our view, a substantive difficulty hampering the turnover of reserves is that procurement prices are higher than market prices, that as a result selling would cause losses, and that such a situation is hampering the turnover. Solutions: First, it is necessary to be turned toward both domestic and external markets. Domestically, it is proper to sell maize and buy wheat and soybeans on the grain wholesale markets. Internationally, it is proper to sell goods at rather high prices and buy goods at the rather low prices on the international market at carefully selected advantageous moments; activities in this respect include carrying out barter trade and exchanging one product for another, such as exporting maize and rice in exchange for wheat, and participating in grain futures trading on the international market on the basis of taking account of the situation on the international grain market. Second, sell marketable goods after carrying out business operations and processing, thereby both increasing sales and producing added value. Only by managing well the turnover would it be possible to keep reserves on an appropriate scale, and to prevent the situation of changeable policies,

a situation where unrestricted procurement leads to quota procurement which then results in additional procurement.

#### **Heilongjiang Rural Savings**

94CE0085P Harbin HEILONGJIANG RIBAO in Chinese  
21 Oct 93 p 1

[Summary] At the end of September, rural saving deposits in agricultural banks and credit cooperatives in Heilongjiang Province totaled 13.3 billion yuan, a net increase of 1.19 billion yuan over the beginning of 1993.

#### **Sichuan Estimates 1993 Grain Output**

94CE0181A Chengdu SICHUAN JINGJI BAO in Chinese  
25 Nov 93 p 3

[Summary] Gross output of grain in Sichuan Province for 1993 is estimated at 86.576 billion jin, a decline of 2.046 billion jin from 1992. Gross output of wheat will be 14.534 billion jin, a decline of 1.156 billion jin. Gross output of rice will be 42.717 billion jin, a decline of 1.873 billion jin. Gross output of corn 12.364 billion jin, a decline of 526 million jin. Gross output of soybeans 625 million jin, an increase of 33 million jin. Gross output of rapeseeds 2.046 billion jin, a decrease of 606 million jin.

### Major Characteristics of Worsening Corruption

94CM0045B Beijing JIDIAN RIBAO in Chinese  
8 Oct 93 p 3

[Article by Gong Pan: "Four Major Characteristics of the Current Corruption Phenomenon"]

[Excerpts] [passage omitted] The corruption phenomenon under the condition of market economy has four main characteristics:

1. *The complicated nature of corrupt behaviors.* [passage omitted] With the deepening of reform and opening up, market actors are increasingly diversified; state-owned, collective, individual, private, and foreign-financed market actors will coexist and develop side by side for a long time. When the market system and market rules are incomplete and contain imperfections, various self-interested actors, driven by interest impulses, would carry out joint activities, use each other, and merge their organizations to various degrees, forming complicated economic relationships and inventing various illegitimate economic means, in the pursuit of the maximum profits. Acts in violation of economic laws and disciplines involving relations between market actors, between market actors and party and government agencies, between businesses, and between businesses and personnel of party and government agencies are on the rise. In such cases things are done secretly; the cases are complicated. The briber and the bribe-taker maintain a one-on-one relationship with each other; transactions are not recorded in accounts; there are no bank transfers; no invoices are used; no white slips are issued; thus, no traces are left. Economic relationships, business and private relationships, and kin and friend relationships are all involved, and are difficult to sort out. It is difficult to judge the rights and wrongs involved. As a result, it is becoming increasingly difficult to handle such cases.

2. *The spread of corrupt behaviors.* Breaking down interregional barriers, establishing a unified, open nationwide market, and abolishing tariff barriers so as to link up the domestic market with the international market are objectively required by the development of a socialist market economy. At the same time, party members and cadres are involved in increasingly frequent economic contacts. In the course of such contacts, the market economy is producing both positive and negative effects on party members and cadres. They have accepted the achievements of human civilization including both spiritual civilization and material civilization, and have promoted the emancipation of the mind, the renewal of ideas, management improvement, technological progress, and economic development. However, they have also unavoidably been subjected to the influence of corrupt and ugly phenomena in society, especially the corrosive influence of decadent capitalist ideas, values, and lifestyles, such as the "money-worshipping doctrine" and extreme individualism. As a result, corrupt behaviors have acquired the capacities to infiltrate and spread. The cases exposed so far suggest that there are the following main manifestations: 1) An increasing number of workers of party and government agencies, including some high-ranking cadres, have been involved in economic crimes; 2) the problems of extortion, bribe-seeking and bribe-taking, favoritism, and embezzlement on the part of workers of judicial, administrative, and law-enforcement agencies are

serious; 3) crimes have prominent sector-based characteristics, and there have been some changes as to where crimes are concentrated; 4) crimes have changed from being committed by individuals into being committed by groups, and the situation where one case involves several crimes is becoming more widespread; 5) the sums involved in crimes are getting larger, and the phenomenon of taking the money and running into hiding is prominent; 6) the phenomena of insider-outsider collusion in committing crimes and of transregional, transprovincial, or even transnational crimes are prominent; 7) new forms and means of crime are continuously emerging; 8) the crimes of tax evasion, tax resistance, and fraudulently getting export-related tax refunds from the state are rising rapidly; and 9) the crimes of trademark counterfeiting and of producing and selling counterfeit and substandard goods are rampant.

3. *The destructiveness of corrupt behaviors.* [passage omitted] In this special period of transition from the old system to the new system, some reform measures are not accompanied by supporting measures; the system is not fully developed; there are imperfections in the regulation and control mechanisms; and the supervising and constraining mechanisms are not rigorous. Under such circumstances, the power-money exchange poses a great threat. Some people are unable to resist the temptation of money, and have turned the power in their hands into a tool for making money. They no longer keep the people's interests on their minds and have forgotten about the ethics that officials should follow. [passage omitted] The idea that "power should be fully utilized before its expiration" has become some people's motto. Consequently, society has seen the emergence of a situation where "those with money can achieve their objectives," where "those with more money are more able to achieve their objectives," where "those with less money are less able to achieve their objectives," and where "those with no money are unable to achieve their objectives." Exploiting this situation, some lawless elements would launch "money-based psychological offensives," buying power with money and making even more money through the use of power. One can buy a piece of information or a policy with several million yuan or tens of millions of yuan. What objective can one not achieve with power? If you can satisfy my personal desires, I will give you whatever you want, including giving approval to loans or authorizing the use of land. [passage omitted]

4. *The fuzzy nature of corrupt behaviors.* Many existing policies, laws, and regulations were products of a planned economy and are unable to provide scientific explanations of and effective constraints on the value orientations, economic conducts, economic phenomena, and social phenomena under market economy conditions. In the meantime, because of practical constraints, policies, laws, and regulations appropriate to a market economy are unlikely to be established and fully developed in a short time. As a result there have occurred gaps and "blind spots" in policies, laws, and regulations, resulting in the fuzziness involved in the process of determining the corrupt nature of behaviors and handling corrupt behaviors. With the gradual establishment of a market economy, many new situations and problems will emerge, and more edge balls and net-hovering balls will be played; but the supervisory agencies are weak and ineffective. [passage omitted]



### Article Identifies, Describes New-Style Reportage

94CM0048A Beijing WENYI BAO in Chinese  
16 Oct 93 p 3

[Article by Yao Yongbiao: "Hot Issues in Perspective: A New Style of Reportage in China"]

#### [Text] Reportage's Regaining Its Splendor

China's reportage saw a short period of splendor approximately 10 years ago, and then became silent. Reportage may be the most sensitive form of literature. Every one of its nerves is directly planted in the soil of reality, and its sensitive tentacles have never stopped for a moment their search for real life. Thus, reportage is a form of literature which is constantly on patrol around us, so that we feel uneasy to some extent while feeling secure to some extent. Surely, such uneasiness is unnecessary. It can only be the kind of uneasiness that one has when facing an observing crowd. For from a comparative perspective, difficulties in social life (whether political, economic, or cultural) are undoubtedly more capable of arousing its interest than the embarrassment in our personal life. This was also the reason for the one-time splendor of reportage.

The emergence of many hot issues in Chinese society in the past two years has provided reportage, which once almost degenerated into commercial advertisements, with an opportunity to regain its splendor. The difference is that the splendor this time is profoundly different from the splendor 10 years ago whether in terms of the scale and form or in terms of the extensiveness and depth of the depiction of the state of society. In terms of content, the former mainly depicted the lives and spiritual outlook of a generation of intellectuals in the period shortly after things had been set to right and after the country's political and economic life had returned to normal; the latter records the changes in all strata and spheres and the societywide restlessness and uneasiness in the period of social transition in present-day China. In terms of form, the former mainly used single articles and the traditional reportage method of recounting narration for expressing ideas. However, the latter carries out in-depth analyses and wide-ranging depiction of hot issues in society in an all-dimensional way through the use of the form of long books; the strengths of its way of expression lie in using large amounts of statistical data as well as detailed and fact-based materials, depicting overall background situations, providing insightful analysis, and making enlightening supporting arguments. This is also the reason why reportage has gained substantial readership (usually around 30,000 copies of a book in such a category are distributed) against the background of today's multichannel culture and in an atmosphere of life filled with restlessness.

In addition to demonstrating the abovementioned characteristics, comparing the processes and achievements of the two episodes of splendor can also provide us with deeper-level understandings.

#### Social Reports by a Generation of Scholars

We tend to understand today's reportage from either a journalism-based perspective or a literature-based perspective, and there is obviously a lack of understanding from an eclectic perspective based on combining the two perspectives. For, it is neither literary correspondence nor correspondence literature, but it is a new kind of reportage which

is journalistic, literary, and academic at the same time. Its academic character cannot be subsumed by the "political character" as found in the past. The so-called hot-issue reportage is in fact a kind of emotional social reports, but is no longer consisted of works produced by embellishing news reports through adding details and maxims. Such a revolution of literary style has posed a serious challenge to reportage writers in regard to their structures of knowledge and skills as well as their language styles.

Such a new situation in reportage writing was created by the entry of many young social scholars into the field of reportage. New writers of this generation are mostly researchers in the fields of sociology, history, and psychology, and there are even some who are researchers at scientific research institutions or university professors. In this regard, for instance, Zhuang Chuanwei and Li Hongxi, the authors of *Mao Zedong, Women Xinzhong de Hong Taiyang—"Xunzhao Mao Zedong Re" Jishi (Mao Zedong, the Red Sun in Our Hearts—A Report on the "In-Search-of-Mao-Zedong Craze")* (Changchun Press, November 1992), are two young scholars who have long devoted themselves to the study of the history of contemporary politics. Many years of historical study has nurtured their deep-thinking habit and their strong sense of social responsibility characteristic of Chinese intellectuals. They have worked very hard in the field of the history of contemporary Chinese politics, and achieved abundant results. In recent years they have started to try to have traditional historical studies move toward real-life society. The book *Mao Zedong, Women Xinzhong de Hong Taiyang* was a result of such trial efforts. In a profound and grand manner the book conducts an in-depth, all-dimensional analysis of the "Mao Zedong craze" in China in the 1990s from the political, economic, cultural, philosophical, and other perspectives, exploring the basic direction of the development of contemporary Chinese culture and people's psychological tendencies in the period of social transition. The book contains unique insights, is enlightening, and exudes a strong sense of history. Chen Bojun and Hu Wenzong, the authors of *Le Xi, You Xi—Zhongguo Nongcun Chao (Happy or Worried—Tides in the Chinese Countryside)* (Sichuan University Press, February 1993) and *Sa Xiang Renjian Doushi Yuan—Jiamao Weilie Hei Chao Da Xiechen (Causing Resentment Across Society—An Extensive Report on the Black Tide of Counterfeit and Substandard Goods)* (Sichuan University Press, February 1993), were once both young scholars devoted to pure theoretical research. What force made them start to carry out such society-oriented new experiments? They said: "There is a need for people to conduct scientific theoretical studies in Chinese society. But, today's China is changing daily, and the buzzing real-life activities are too powerful in tempting people to take part in them. When the sky is blue and when the sun is warm, who would not want to leave home, going to the fields and woods? At least, we have not been able to resist the temptation. We could not but let our teachers, who had overly high expectations on us and taken us very seriously, feel disappointed. We left the pure theory field in which we had been so comfortable for a time, and plunged ourselves into real-life activities, choosing to express the ideas based on our study of China's rural question, to which we had devoted ourselves for many years, through a means which combines news reporting, reality depiction, and political commentary" (*Le Xi, You Xi—Zhongguo Nongcun Chao*, Postscript). The

several leading authors of *Dongfang Zhendang—Zhongguo Gaige Kaifang Shehui Redian Wenti Da Toushi (Turbulence in the East—Extensive In-depth Analyses of Hot Issues in Society Related to the Reform and Opening Up of China)* (Hainan Press, August 1992) are all well-known students of social psychology. Sun Yuanming is the host of the weekend psychological consultation line of the Chongqing Telephone Information Service Station. The book originated from records of such telephone consultations. The other two were each a winner of the Gao Shiqi Popular Science Prize: Associate Professor Zhao Lingli and Chief Doctor Zou Daozhi.

This is a newly emerging force which, in the period of great social turbulence and differentiation, entered the realm of literature which had been made very mysterious. On the one hand they have the capabilities for sharp observation, rigorous research, and profound thinking nurtured by many years of professional training; on the other hand their multifaceted artistic endowment also provides them with the artistic talent of professional writers (mainly reportage writers). Meanwhile, as social changes in the period of social transition have continually stimulated them, they have acquired high enthusiasm for life, a strong participation consciousness, and a strong sense of responsibility. It is only because of all this that the pens used by this "newly emerging force" have created a new and colorful situation.

#### Chinese Literary Men's Pen Used for Writing Political Commentaries

Chinese literary men have a long tradition of political commentary. From the masters and the hundred schools to the "May 4th" pioneers of contemporary culture, they "have died nine times but have no regrets," and have not changed that tradition after several thousand years of evolution and change. Naturally reportage has assumed this important historical mission of providing political commentaries. This has reminded reportage, the "dangerous literary form" (words of Jixi), of its "dangerous nature."

In theory, the work of "making political commentaries" belongs to such people: They have discovered many problems detrimental to the interests of the social public, and are anxious to resolve those problems; thus they write commentaries so as to arouse attention from politicians or to incite moralistic fervor in society. "Discussing politics in the guise of conducting academic studies" (this is not turning political issues into academic issues) remains the major way in which Chinese literary men participate in social life. Herein may also lie the nobleness and vulgarity of Chinese literary men. They have always had a strong sage mentality characterized by the idea that "one should worry about things before the people do."

Scholars' writing social reports has brought such sages' worry into the field of reportage, thereby making reportage, which has a political commentary element in the first place, demonstrate a greater degree of worry. The state of Chinese society in the transition period is heartening and satisfying, but there have also unavoidably occurred a series of "transition period syndromes." Imperfections in the system, imperfections in the legal system, the inability to adapt to the economic model, the predicaments in which education as well as science and technology are situated, the crisis of

cultural quality, moral disorder, psychological imbalances in society, the destruction and reconstruction of values, confusion and crisis concerning political beliefs... and the resultant phenomena including the profiteering carried out by officials, the practice of giving banquets, vying in showing off wealth through gambling, visiting prostitutes, prostitution, producing and selling counterfeit goods, producing and selling pornography, drug trafficking and use, the fact that everyone is engaged in business activities, tax evasion, losses incurred by enterprises, mountains of documents and oceans of meetings, overblown bureaucracy, paid news reports, high-price students, the income gap in a reversed direction between mental and manual laborers, and wide income gaps have all caused people's attention, and made people think. Such attention and thinking have led to the emergence of one hot issue after another; such hot spots have turned into hot waves, which have turned into hot tides. The situation has turned from being hot into being red-hot, and then the situation is characterized by a state of boiling. People are sometimes excited, and sometimes angry. This has encouraged a generation of social scholars to be bold, and as a result many writers of research reportage have been born as the times would require. Propelled by their sense of responsibility and their sense of mission, they have conducted all-dimensional investigations and in-depth analyses of the hot issues about which the entire society is concerned, through the use of the methods of recording events, analyzing issues, and making supporting arguments. The achievements have been multifaceted. There are the following obvious ones: 1) It has reduced the psychological shock produced by the contradictions and conflicts in the transition period on those who are concerned with the hot issues in society, who have participation consciousness, but who are busy with their routine work and limited in their field of vision, through promoting the act of "identifying" on their part. 2) The writers have revealed their panoramic understanding and mastery of the hot issues in society achieved through standing at a high point, and in this way they have expressed their sages' worries. It does not matter whether such expression of worry can arouse attention from those who cure social diseases and who save society, the writers have undoubtedly fully purified and sublimated their souls.

Making political commentaries has turned out to be also able to lead to the sublimation of the human character; it is thus no wonder that throughout history Chinese literary men have been eager to engage in such an activity.

When at the court, one would be concerned about the monarch; when far away from the capital, one would be concerned about the people. Those writers (who are also scholars), living among ordinary people in an ordinary way, are large-minded and have a wide field of vision. Our cultural realm needs a large number of such scholar writers of research reportage who are so concerned and knowledgeable about China's reality, have such a strong sense of mission and sense of responsibility, and are so bold and wise.

As far as spiritual products are concerned, the social public's psychological demand constitutes a market of limitless potentials. In this sense, the birth of hot-issue reportage was also historically inevitable, and is sure to provide some insights concerning the development of Chinese literature in the period of social transition.

### Journal Reports DPP Changing 'To Gain Power'

94CM0010A Taipei TIENHSIA [COMMONWEALTH]  
in Chinese No 148, 1 Sep 93 pp 72, 74-76, 78

[Article by Li Ming-hsuan (2621 2494 6513): "A Change of Garb To Gain Power"]

[Excerpts] [passage omitted] During the past year, the Democratic Progressive Party (DPP) has clearly changed everything from its published appeals to its organizational atmosphere, to its election battle tactics in order to "gain power."

One of the signs of its transformation is the readjustment of its role. The DPP, which opposes getting ahead through campaigns, has traditionally based its position on forces outside the government system. Today, however, this "opposition to campaigns" has been virtually replaced by a "democratic campaign" within the DPP. Mindful of the change of language within the party, DPP representative for middle-aged people and director of the Organization Department, Lin I-cheng [2651 1355 2973] said, "Nowadays, everybody wants to win."

DPP Policy Study Center director, Ch'en Chung-hsin [7115 1813 0207], said even more freely that the DPP people should begin to pay attention to how they dress, because "the public expects the DPP to act like 'people in charge.'" Recently, Chung Chung-hsin, who is currently busy with publishing the DPP's policy white paper, and who usually wears a shirt and everyday trousers to the office, was reminded by his friends that his "attire is too casual."

The times have mellowed the DPP, and the DPP has begun to be accepted. Remembering that seven years ago when the party was founded he daily faced the possibility of arrest, but now his children's school invites him to speak, the first chairman and currently acting secretary of the DPP, Chiang P'eng-chien [3068 7720 1017], has an excited tone: "This is an epochal change."

The DPP has also adjusted its appeal out of a desire to gain power. This began with a "united DPP opposing a divided Kuomintang [KMT], and an honest DPP opposing a crooked KMT." It was closely followed by an appeal to "honesty, hard work, and love of native land." In the DPP's recent statements, it is virtually impossible to detect any trace of ideology. Traditionally, some colorful pink, yellow, and bright blue posters have also appeared in the sea of green DPP banners.

Most of these have come from the imagination of DPP propaganda department director Ch'en Fang-ming [7115 5364 2494]. They are also an outgrowth of his ceaseless travels to the countryside and his constant exchange of experiences. "The Kuomintang entered the Li Teng-hui era in the wake of the Fourteenth Party Congress, and the electorate also began to realize the difference between the KMT and the DPP at that time. Ch'en Fang-ming, the son of a poet, who writes with a pungent style, and who more than a decade ago committed himself to becoming a '(Republic of China) rebel,'" explained: "The difference between us is one of a corrupted old party representing a minority interest group and a young and vigorous party representing a majority of the Taiwanese." The key to the ability of DPP statements to move people despite the lack

of great slogans or splendid phrases lies in their hewing closely to the hopes and needs of the electorate. Many industrialists feel that in the worsening economy, most problems stem from noneconomic causes such as corruption and inefficiency. "Government corruption and waste amounts to theft of the people's money," said a fairly large computer display manufacturer verging on anger.

At the same time, the leader in drawing up election lines, the DPP, has also begun to distance itself from the KMT on issues such as business organization and the exploitation of resources, drawing closer to the electorate. The traditionally politically indifferent electorate, local factions that support the KMT, and even politically conservative industrialists and businessmen are the main objects of the DPP's efforts.

The 1993 DPP Cultural Conference, which was held in the Central Library two months ago, was just such an application of the concept of "widespread reliance on external forces." [passage omitted]

This year's first ever public opinion survey was likewise an attempt to gain outside assistance to make up for the DPP's lack of resources of its own. With help from a number of political scientists, who guide their approach and study information, in recent months the DPP has begun to develop its own public opinion survey data bank. After conducting local public opinion polls in Taipei County and Keelung City in accordance with this plan, the first public opinion survey of 21 counties was completed in early August. Then different election strategies were drawn up to meet the different needs of residents in separate areas.

Thanks to this professional public opinion poll, the DPP discovered the issues that the electorate cares about and are of personal concern. Consequently, it has made a series of soft appeals about social order. In Taipei County, DPP county magistrate Yu Ch'ing [1429 3237] has recently put a lot of effort into getting rid of smut, and he is about to investigate electronic games parlors. This has won approval from the middle class and women. On the eve of Fathers Day, the DPP candidate for mayor of Hsinchu, Wu Ch'iu-k'o [0702 4428 8199] shouted to a crowd on the city's Tien-kung-t'ang Square: "When Wu Ch'iu-k'o becomes mayor, everyone will have living allowances like those that the army, civil servants, and teachers have. When Wu Ch'iu-k'o becomes mayor, everyone will have them, 100 percent." The audience of hundreds in the square on that muggy night applauded and shouted wildly.

Ever since Yu-Ch'en Yue-ying [0151 7115 2588 3841] began it, other DPP county magistrates and mayors have taken up social welfare policies for the past four years, making them standard appeals that have narrowed the distance between the DPP candidates and the electorate in 1993.

The DPP, which is in the midst of change, has also begun to follow the example of the KMT to forge links with other influential local groups.

Overnight traditionally irreconcilable local factions have become resources that the DPP can use to win elections.

In contrast to its openness on social matters, the DPP keeps a low posture verging on secrecy about its efforts to



"defect" local factions. Even though the DPP's New Tide Faction maintains a suspicious attitude about "defecting local factions," fearing that the result of involvement with locally influential people may gradually sully the DPP; nevertheless, "defection" continues actively.

Since the beginning of the year, Ho Chia-jung [0149 0557 2837], the former Chia-i County magistrate who also entered the DPP with support from the local factions, has operated under the opposition party banner to enter the county magistrate election races. Cooperation between the DPP and the local factions is becoming increasingly open.

"The local factions are also people. They have influence because they play many roles in serving the community." In one private situation, when Hsu Hsin-liang [6079 0207 5328] was accused by an opponent of being too good at "talking big," he offered "defection of the local faction" as a defense.

From south to north, and from Hsu Hsin-liang's coming out to the initiative of grassroots cadres in making calls, at least 10 different factions throughout the province are maintaining liaison with the DPP, said one DPP personage.

On the subject of yesterday's enemies being regarded as today's allies, the Organization Department's Lin I-cheng feels "strange." But he also acknowledges that the local factions have considerable influence in sustaining the intensity of the election battle of 1992, and going on to win local votes. If the local factions support the DPP in the year-end election battle, the number of votes for the DPP will rise. Even if the local factions remain neutral, the DPP will face less pressure. The DPP is trying to expand from its traditional reliance on candidate charm to county and city organization to win elections. Lin I-cheng, who has gone into the countryside almost every week during the past half year in order to gain an understanding of the situation at the local level, said: "The key to victory or defeat in next in the 1994 election for provincial governor may be in traditionally inconsequential battle grounds like Hualien and Taitung."

In addition to defecting local factions, the DPP, which aims to unseat the ruling KMT, is also actively seeking support from industrial and commercial concerns.

The visit to the China mainland in July 1993 of Shen Ch'ing-ching [3088 1987 0079, the chief executive officer of Wei Ching Enterprises and also an observer to the KMT Fourteenth Party Congress, and six DPP legislators, including Hsieh Ch'ang-yen [6200 7022 1693], shows the intention of the DPP to play a role in mainland policy. "To win the support of the business world, the DPP must be informed about the mainland," Shen Ch'ing-ching said.

In fact, not only is there a consensus within the DPP about "looking after Taiwan businessmen," but since March 1992, the newly established Development Committee has become a contact point for developing relations with the industrial sector.

Although the Development Committee headed by DPP acting secretary Chiang P'eng-chien [3068 7720 1017] consists of only a chairman, an executive director and an assistant director, it recently held three industrial and

commercial panel discussions in Taipei and Kaohsiung on "plans to invigorate the economy."

"Industrialists said that the DPP is more mature than it used to be," said the Development Committee's only "soldier," assistant director Liao Chin-sung [1675 6855 2646] as he thumbed through an industrial policy recommendation book. The 58 year-old Liao Chin-sung has always been responsible heretofore for DPP grassroots mobilization work. During the big citizens voting campaign in Taichung two years ago, he also assembled 35 tour buses full of people. After changing his role, it is hard to find him on the roles of industry or business. It is not clear how big his concern is.

Moreover, business is generally also deeply apprehensive about the change in the DPP's role. A survey of 1,000 firms shows that fewer than 10 percent approves the DPP's taking over the reins of government.

The DPP, which pairs education with propaganda, fully exploits social resources and is steadily accumulating new energy, hurting the dominance of its main competitor, the KMT. In addition, the flagging vitality of the KMT, and its reliance on financial groups and local factions has led to increasing public disenchantment that has quickly narrowed the distance between the two parties.

"The ruling party has obviously not learned from the lessons of defeat in last year's legislature elections," said a KMT civil servant in Taipei County, shaking his head vigorously over this year's KMT nomination strategy because it ignores "popular sentiments, dilutes factions, and makes light of pressures from those who have money."

"Like two competing companies, the DPP has adopted a customer-oriented sales promotion strategy, while the KMT still follows a traditional door-to-door sales strategy," said a KMT government official who has experience helping out with elections, his brow knitted. He is not optimistic about the end-of-the year election fight.

However, though the goal of holding power is enticing, it is also taxing, and it even colors the DPP's attitude toward political responsibility and its ability to handle it.

"If holding power means catering to the electorate, who is to bear responsibility for the complications that ensue?" said an entrepreneur from a southern prefecture. He has no confidence in the DPP. He mostly regards the DPP as rushing forth to promote ill-considered social welfare policies without regard for the impact on the country's financial resources.

"Formerly when it had no standing, the DPP operated around the fringes of the law; now it operates around the fringes of policy," this entrepreneur said.

Hsu Chung-jen [1776 6850 0117], the general manager of nearly 800 allied shops throughout the province that cut across business lines, said that although the DPP less emphasizes ideology, no concrete and complete fiscal and economic policy is apparent. "To become the ruling party, it will have to gain the public's confidence," Hsu Chung-jen said wisely.

"The DPP's economic development orientation must be more convincing," advises T'ien Hung-mao [3944 1738 5399], the director of the National Policy Research Center.

who is an observer of the mood of industrialists. "The industrialists may have lost confidence in KMT policies, but they do not doubt its desire to develop the economy. The DPP has not done enough in this regard."

Even more people are concerned about the DPP's use of fair means or foul to win elections, and whether the DPP might become a second KMT that compromises with authoritarianism.

Although scholars and experts attending the cultural conference that the DPP convened in late July vigorously criticized the ruling party's cultural policy, its cannonade was also unexpectedly turned on the conference's DPP sponsor.

"The current DPP issue is its sense of direction," said Li Yung-ch'ih [2621 3057 3589], professor of history at Taiwan University, who is not a member of the DPP but who has been a long time supporter of the DPP. "By seeking only to gain power, the DPP may lose its ability to reform."

By way of expressing his dissatisfaction with the current DPP line, Li Yung-ch'ih and some radical professors switched their support to Kuo Pei-hung [6753 0223 1347], who is running for mayor of Tainan after his withdrawal from the DPP. Kuo had formerly been chairman of the United States headquarters of the Taiwan Independence Alliance. After returning home, he joined the DPP. However, dissatisfied with the torrent of abuse from party oldtimers in the DPP's first election two months ago, he withdrew from the DPP to seek election as a candidate without party affiliation but with a clean image.

"The KMT has slid into chaos because of the collapse of its traditional values," an American reporter in Taiwan observed. "Although the DPP is like the sun rising on a new day, just what the days holds cannot be foreseen."

The recent disorder and disarray in the KMT, and the people's disgust with the power of money and factional politics have really made it possible for the young DPP to take power. The new KMT's continuous organization of a new party in early August produced a split in the KMT, which has been the ruling party for more than 40 years, and it has made quite a few DPP members beam with smiles.

However, Lin Cheng-chieh, a prudent observer of social developments and a legislator without party affiliation says that "Farsighted DPP members should regard the new KMT as a real competitor."

### Journal Analyzes KMT Campaign Funding

94CM00401 Taipei HSIEN HSIEN WEN [THE JOURNALIST] in Chinese No 344, 16 Oct 93 pp 16-19

[Article by Huang Kuang-chin: "A Mighty Force With NT\$2 Billion Ready To Charge Forward"]

[Text] During the forthcoming election of mayors and county magistrates, how much does the Kuomintang [KMT] need to spend in protecting its throne?

On 4 October, KMT Chairman Li Teng-hui said to the basic-level campaign cadres at Yangmingshan: "During the current election of mayors and county magistrates,

various localities must lay a good foundation. If you have any need, either the provincial party headquarters or the party headquarters at the central level will fully support you. Don't say that I don't have money and there is nothing I can do. You should not say anything like that." Li Teng-hui's words are not casual remarks. To fight this battle to protect its throne, the KMT has invested an enormous amount of money. According to a report from the finance commission, the general expenses for campaigning have already surpassed the NT\$1 billion barrier, reaching NT\$1.3 billion. That does not even include the concealed special expenses.

According to the confidential itemized budget prepared by the KMT for internal circulation, the KMT has, for this election, authorized more than NT\$600 million for the provincial party headquarters and another NT\$600 million for the party's organizational department as campaign funds. These campaign funds reflect a situation far different from the straitened circumstances painted by KMT Secretary General Hsu Shui-Te. The KMT spent more than NT\$140 million for its 14th National Congress. Now, right away, it is able to come up with over NT\$1 billion for general campaign expenses. This cannot but make people feel envious. Although this 100 year-old KMT store is of age, its financial resources are much more abundant than those of the Democratic Progressive Party and the Chinese New Party.

Over the years, the KMT has invariably prepared two types of budgets for election campaigns—one for the general expenses basically to be used by various party organizations and its cultural and propaganda departments, and the other for use by candidates for special hidden expenses. Ordinarily the KMT allows three types of candidates to use these special funds. They are candidates who lack their own financial resources; those who are in areas where campaign circumstances are difficult; and party-supported candidates who will share the budgets proportionally on the basis of the number of constituents in one's own area.

The specific amount of the KMT budget for this year's general campaign expenses is over NT\$1.3 billion. In addition to the aforementioned budget for the provincial party headquarters and the organizational department, the cultural department, which is regarded as an important sector of secondary nature, has also received NT\$50 million for publicity and advertisement work. To meet the requirements for campaigning, the KMT also earmarks NT\$10 million in the budget for the social department, the Huang Fu-hsing party headquarters, and the party headquarters for the financial sector. Even the party headquarters in the municipalities of Taipei and Kaohsiung, where there are no candidates, have received NT\$10 million and NT\$7 million respectively. From this, we can see that the municipalities of Taipei and Kaohsiung have also mobilized to campaign for Taipei and Kaohsiung Counties. In addition, the Youth Department, the Women's Affairs Department and the party headquarters in the industrial and communications sectors have also shared financial aid ranging from NT\$7 million to NT\$5 million. As for the Overseas Department, the Evaluation and Discipline Commission and the party headquarters in the media sector, they have received less financial aid, ranging from NT\$500,000 to NT\$1.5 million. (See table below)

Table of Budget Prepared by KMT for Campaigning in City Mayor, County Magistrate Election

Unit in Charge	Amount (NT\$)	Remark
Provincial Party Headquarters	600 million plus	including NT\$180 million campaign funds distributed among approximately 9,000 responsible districts (polls)
Organizational Department	600 million plus	
Cultural Department	50 million	
Social Department	10 million	
Youth Department	7 million	
Women's Affairs Department	7 million	
Overseas Department	500,000	
Evaluation and Discipline Commission	500,000	
Taipei Municipal Party Headquarters	10 million	
Kaohsiung Municipal Party Headquarters	7 million	
Huang Fu-hsing Party Headquarters	10 million	
Party Headquarters in Financial Sector	10 million	
Party Headquarters in Industrial Sector	5 million	
Party Headquarters in Communications Sector	5 million	
Party Headquarters in Media Sector	1.5 million	
Total	1.32 billion plus	The above is a general budget. In addition, there is a concealed budget for special expenses.
		Table prepared by Huang Kuang-chin

In working out a budget for campaigning, the provincial party headquarters, the party headquarters in the municipalities of Taipei and Kaohsiung, and the special party headquarters, first of all, submit the proposed budget to the organizational department. The latter then helps the finance commission and coordinates with the evaluation and discipline commission to come up with a specific figure, and then forward it to the secretary-general and the chairman. The funds are mainly used for Taiwan Province. A "Three-in-One" election of mayors and county magistrates, provincial and city councilmen, and legislators was held in 1989. Due to the fact that this election involved campaigns for mayors and county magistrates, the funds were allocated directly to the provincial party headquarters and the party headquarters of the two municipalities of Taipei and Kaohsiung from the finance commission without going through the organizational department. Funds earmarked for the KMT general headquarters are also included in the budget. A fairly large portion of the budget goes to the organizational department and the cultural department, while a comparatively small portion goes to other departments. However, even if a fairly large portion of the budget goes to the organizational department, the portion that goes to the provincial party headquarters is still larger. From this point, we can see that the KMT not only spends more money on campaigning this year, it has also strengthened its overall efforts to get mobilized organizationally.

When the provincial party headquarters receives the campaign funds, it distributes among the local party organizations which then transfer the funds to various responsible districts to carry out campaign activities through the closely-knit network for organizational mobilization. Let us take 1989 as an example. The fund for activities in a

responsible district was about NT\$20,000. Tu Te-chi, chairman of the provincial party committee, quoted a figure at Yangmingshan on 4 October this year, which made all those attending the meeting prick up their ears. He said that during this election campaign, each local party headquarters is ready to pay "NT\$4,000 a month for each headman." If what Chairman Tu misquoted is true, the amount of campaign funds spent by the KMT on its headmen alone is already astronomical.

Later the KMT categorically denied this figure. It said that this amount is not given to each headman. In the NT\$600 million budget for the provincial party committee, the polls in each responsible district will receive NT\$4,000. If a calculation is made on the basis that during the five month period from July to November, the KMT hands out the campaign funds to approximately 9,000 polls for the election of mayors and county magistrates, the various responsible districts would receive about NT\$180 million. Another person in charge of election campaigns revealed that in addition to the campaign funds for each responsible district—expense activities in various polls, the KMT has also set up 12 liaisons in each village this time, and paid each of them NT\$1,000 a month. This means each village will have received NT\$12,000 as its monthly campaign fund. From this point we can realize that the KMT has paid a great deal of money to those who are doing just legwork for this election.

Under the item of general expenses, the cultural department is an organization which receives the second largest amount of campaign funds just next to the various sectors under the organizational department. During this year-end election of mayors and county magistrates the cultural department receives NT\$50 million from the budget. Its



main expense is to launch five waves of half-page advertisement campaigns in some selected plane [as published] media. It spends the remaining funds on cultural work and publicity such as the printing of handbills and playbills. However, it is reported that this time the cultural department has also found 10 companies doing public relations work for the candidates, but not many companies are selected to handle publicity work. In general local candidates still prefer to do publicity work in their own ways. Nevertheless, once a public relations company is selected, contracts will be signed between the company and the candidates concerned. The cultural department is not financially involved.

As for other departments and special party headquarters, campaign funds are budgeted according to the number of voters they can possibly woo. However, there are cases whereby the amount of campaign funds and the number of people campaigning is out of proportion. For example, from 10 to 20 November, the evaluation and discipline department called their members, liaison men and ballot controllers, totaling 10,500 people, to congregate in two sessions from 10 to 20 November. Lee Tsung-jen, chairman of the evaluation and discipline department, asked those attending the sessions to woo 20 voters each person. That means the evaluation and discipline department alone is able to woo 210,000 votes. However, the KMT only allocates NT\$500,000 to the department. It looks like what the department receives falls short of its expenditure. It may not have enough money to buy a lunch box for each person.

In addition to the general expenses, nobody knows right now how much the KMT is going to spend as "special expenditures" in financially helping its candidates. However, during elections between 1986 and 1989, the KMT's upper limit for helping candidates who were short of funds was between NT\$15 million and NT\$20 million, while for its lower limit no sum too small for it to give out. For example, the KMT did not provide any financial assistance to Wu Tun-i who was elected Nantou County magistrate and Hsu Wen-chih who was elected Yunlin County magistrate in 1986, because the situation in the election was quite stable. In 1985, the KMT made special efforts to support its candidate Ou-Yang Chuang in Penghu County, but at that time, it only gave him NT\$2-3 million, because the situation in election was not so complicated. The candidates with moderate financial resources were only given NT\$1-2 million as financial aid. For example, Lee Sen-fong who ran for a seat in the Legislature in 1986 was only given a symbolic financial aid of NT\$2-3 million, because there were more than two candidates in the same

district. This amount is far smaller than the NT\$140 million that an erroneous report said he had received.

The special campaign funds provided by the KMT Central Committee to its various candidates for mayor and county magistrate are not the same. They are based on each candidate's own situation. The KMT provides no financial aid in areas where it surely will win. It provides more financial aid in areas in which it is fighting a tough battle, while it gives less financial aid in areas where the situation is not so complicated. Most of the candidates are still required to raise their own campaign funds. Therefore, the KMT candidates invariably spend a great deal of their own money in election campaign.

Past experience shows that those candidates who are skilled in raising campaign funds need no financial aid from the party headquarters. They themselves are able to earn support from five to six financial groups. For example, it is said that KMT candidate Li Hsi-kun in his fierce battle with Democratic Progressive Party candidate Yu Chin, for Taipei County Magistrate in 1989, relied on the local faction (Lin-Chiang Faction in Chungho Township) for most of his campaign funds. The KMT party headquarters did not spend much on him. However, the operation of the KMT party quarters was managed by two factions at that time. The faction headed by Kuan Chung understands that the KMT Central Committee did not give Lee much financial aid, but we are unable to find out about what the other faction would say.

If we look at the experience of the "three-in-one" elections held by the KMT in 1979, only a dozen or so candidates were given financial aid in the unitary election of mayors and magistrates at that time. The KMT pays much greater special expenses in support of its candidates in the current election of mayors and magistrates as compared with the 1989 election. Considering the fact that the KMT had eight balloting districts fall into the hands of the opposition party, it will spend as much as NT\$160 million in these eight districts even if we calculate on the basis of the NT\$20 million upper limit in 1989. Also, this is the most conservative estimate.

If we roughly estimate that the KMT spends NT\$1.3 billion as general expenses for the current campaign on top of the special expenses on its candidates, it at least invests nearly NT\$2 billion in the current election of mayors and county magistrates. That does not include the amount that the candidates themselves will have to spend. The KMT touts that it neither buy votes nor offer bribery in the current campaign. However, as seen from the current situation in campaigning, the KMT still cannot internally and externally extricate itself from the battle of money in this year-end election of mayors and county magistrates.

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